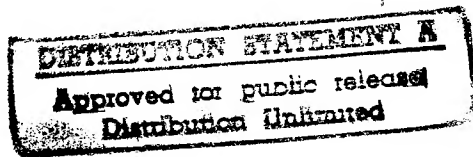


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CONTENTS

POLITICAL

Policy, Legislative Research Discussed (Yu Meisun; ZHONGGUO FAZHI BAO, 11 Dec 86)	1
Objectives of Political Structural Reform Discussed (LILUN XINXIBAO, 9 Mar 87)	3
Liu Binyan on Literature, Social Responsibility (Liu Binyan; WENXUE PINGLUN, No 1, Jan 87)	5
Liu Binyan's Journalistic Views Criticized (XINWEN ZHANXIAN, No 3, 1987)	12
Briefs Cadre Dereliction of Duty Increases	16

ECONOMIC

NATIONAL AFFAIRS, POLICY

Discussion on Establishing Two National Budgets (Tong Shan; JINGJIXUE ZHOUBAO, 8 Mar 87)	17
---	----

FINANCE, BANKING

Suggestions on Foreign Debt Management (JINGJIXUE ZHOUBAO, 1 Mar 87)	20
---	----

Price Reform Issues Discussed (Ri Xin; JIAGE YUEKAN, No 12, 15 Dec 86)	22
Price Reform Underlies Economic Reform (Dai Yuanchen; SHIJIE JINGJI DAOBAO, 2 Mar 87)	30
Enterprise-Like Operation Suggested for Specialized Banks (Wang Dashu, Wang Guangqian; CAIJING KEXUE, No 1, 25 Jan 87)	33
FOREIGN TRADE, INVESTMENT	
Illegal Export of Commodities to Hong Kong Stopped (Wang Yixia; GUOJI SHANGBAO, 10 Mar 87)	39
Trade Impact of Appreciated Yen, Countermeasures (Xu Xinli; CAIJING YANJIU, 3 Mar 87)	41
Readjustment of Export Commodity Structure Urged (Zhou Dan; GUOJI MAOYI WENTI, No 1, Jan 87)	50
ECONOMIC ZONES	
Liu Guoguang Discusses Strategy for SEZ Development (Liu Guoguang; CAIMAO JINGJI, No 2, 11 Feb 87)	55
SEZ Economic Growth Prospects (Li Jianying, He Dongxia; JINGJI RIBAO, 14 Mar 87)	66
AGRICULTURE	
Study on Factors Influencing Rural Labor Productivity (Tian Weiming; NONGYE JISHU JINGJI, No 1, Jan 87)	69
Good Outlook for Grain Production (Song Jishui, Zhou Yichang; LIAOWANG, No 8, 23 Feb 87)	77
Hebei Peasants' Income, Living Standards Improve (Jiao Zhongfang; HEBEI JINGJI BAO, 7 Feb 87)	80
Hunan Official Interviewed on Grain Purchases (HUNAN RIBAO, 6 Mar 87)	83
Hunan Grain Problems, Solutions Discussed (Yang Fengjun, Zhang Chi; HUNAN RIBAO, 5 Mar 87)	85
Yunnan Land Management Measures Promulgated (YUNNAN RIBAO, 4 Mar 87)	88
Briefs Shanxi Fertilizer Prices	106

REGIONAL

EAST REGION

Fujian Stresses Party Consolidation (FUJIAN RIBAO, 31 Dec 86)	107
Jiangsu Forum on Opposing Bourgeois Liberalization (Zhang Chenglin, et al.; XINHUA RIBAO, 12 Mar 87)	110
Shanghai Crack Down on Economic Crimes (Shen Jianxuan; WEN HUI BAO, 24 Mar 87)	113
Shanghai Convenes United Front Work Conference (JIEFANG RIBAO, 27 Feb 87)	115
Jiangxi Stresses More Competent Leading Groups (JIANGXI RIBAO, 22 Dec 86)	116

NORTHEAST REGION

National Conditions Said Reason for Missing 'Capitalist Stage' (Wang Shenyi; HEILONGJIANG RIBAO, 5 Mar 87)	118
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POLICY, LEGISLATIVE RESEARCH DISCUSSED

Beijing ZHONGGUO FAZHI BAO in Chinese 11 Dec 86 p 2

[Article by staff reporter Yu Meisun [0205 2734 5549]: "An Interview with Ma Hong, general secretary of State Council Center for Research on Economic, Technological and Social Development, on Policy and Legislative Research"]

[Text] In the latter part of November, the State Council Center for Research on Economic, Technological and Social Development held a national policy consultative work forum in Hangzhou. During spare time between meetings, this reporter interviewed the center's general secretary Ma Hong [7456 3163].

Our conversation dealt with adapting to the needs and demands of the world new technological revolution. Ma Hong said: With the changes in China's economic strategies, we have encountered numerous new problems in our work, e.g., replacement of old systems with new ones, readjustment of the economic structure, scientific and technological progress and technological remolding, utilization of the international market and resources, and so on. New characteristics have emerged in policy making, e.g., from developing a policy dealing with unitary issues to policies dealing with the study and analysis of overall economic, technological and social issues, from centralized to dispersed policy making at different levels, and from considering only domestic factors to giving attention to changes in domestic and international factors, including both long-term fairly stable goals and contingency plans. All these elements are posing a higher demand on policy making.

For this reason, Ma Hong pointed out, issues requiring policy making in a modern society include legislative issues. They are as a rule comprehensive, diverse, macroscopic and dynamic in nature. Therefore, we cannot study policies in isolation, but should place them in the macroscopic system of economic, technological and social development. We should conduct dynamic overall analyses of diverse factors, consider the political and social, as well as economic and technological elements, and find the best ways to resolve these issues.

In discussing how to be more scientific and democratic in policy making, Ma Hong felt that attention should be given to comparisons of diverse plans and simulations of the consequences of proposed policies, laws and regulations. He declared: "In the past we often provided only one policy plan, leaving no

room for selection, and policy makers often had difficulty in determining suitability. Only by comparative studies of diverse plans, analyzing and demonstrating their pros and cons, and giving special attention to the impact of certain undetermined and restrictive factors, will policy makers see the whole situation and make comparisons and selections. In regard to the implementation of draft policy plans, laws and regulations, we must analyze the possible ideological, organizational and social resistance, and propose appropriate countermeasures.

Meanwhile, specific means of simulation and forecast of possible economic, technological and social results after the implementation of draft policy plans, laws and regulations will enable policy makers to weigh the pros and cons of policy and legislative plans more comprehensively."

When we discussed the study of scientific forecasting further, Ma Hong emphasized: "In the past, we usually started our consultative studies by reviewing history and analyzing present conditions, and made little attempt at forecasting future changes. That was very inadequate. Only by means of scientific forecast will we be able to gather information on the changes in scale, quality and quantity, changes in time and space, and dynamic bases affecting results in the development of pertinent matters. Only then will we be able to master future and developmental tendencies needed in policy making, in order to remedy possible shortcomings in consultative and legislative studies." Ma Hong said "In recent days, the legal community has begun to study the leading nature of economic legislation and the systems engineering of economic laws. This is very useful and it is worth trying. I look for good results."

Finally, we discussed the legalization of policy making. Ma Hong declared that all policy making should follow the procedures prescribed by law. In terms of important government policies, laws and regulations must be formulated, in order to ensure the stability and continuity of such policies. Meanwhile, appropriate regulations must be made with regard to the rights and obligations of consultative organs and procedures and responsibilities of consultation. It will ensure democratic and scientific consultative work. He suggested that, in the future, economic consultants, researchers and legal workers learn from one another, cooperate closely, gradually master the use of legal means to regulate the economy as a whole, and bring success to China's policy making.

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CSO: 4005/383

OBJECTIVES OF POLITICAL STRUCTURAL REFORM DISCUSSED

Beijing LILUN XINXIBAO in Chinese 9 Mar 87 p 1

[Text] Political structural reform should be carried out with three objectives in mind: First, we must at all times preserve the vitality of the party and the state. Vitality is related to the rejuvenation of the leading organs. Several years ago, we proposed that our cadres should be "more revolutionary, younger in average age, better educated, and professionally competent." We have done some work in this respect in the past 7 years, but this is so far the beginning. The first objective we set for the political structural reform cannot be attained in 3 or 5 year, and probably not in 15 years. This task cannot be completed by the time of the 13th or even the 14th CPC Congress, and probably not until the 15th CPC Congress. However, the setting of objectives is very important. The first objective is the preservation of vitality. It will be fine when China can produce many statesmen, economic administrators, scientists, and men of letters, all in their 30's and 40's. Policies to encourage young people will involve the educational system. Strictly speaking, this is only the marching order. There are still many questions to be considered and many measures to be adopted. However, this objective is necessary.

The second objective is to overcome bureaucratism and inefficiency. Bureaucratism and inefficiency are the by-products of over-size departments and surplus personnel. More important still, there is no separation between party and government. Because of overlapping organs, the party has taken over many government functions. We must uphold party leadership, a Chinese characteristic which cannot be given up; however, the party must be good at leadership. We raised this question several years ago, but many problems have to be considered before we can find the way to address it. This is the second objective. We cannot accomplish the four modernizations without work efficiency. If we do not overcome bureaucratism and inefficiency, we will not be able to accomplish this task. Human progress in the world is very rapid, particularly in the scientific and technical fields. If we are only 1 year behind, it will be difficult for us to catch up. That is why this problem must be solved.

The third objective is to arouse enthusiasm, particularly among people at the basic levels, including the workers, peasants and intellectuals. The reform has been going on for 7 years, and one good experience we have gained is the delegation of power to the lower levels. Power was delegated to the basic levels in the reforms of the countryside and the industrial and mining

enterprises. There is also the problem of arousing the enthusiasm of workers and intellectuals at the basic levels. We must permit their participation in democratic management, preserve the vitality of leadership, overcome bureaucratism and inefficiency, and arouse the enthusiasm of people at the basic levels. Only thus can we be hopeful about the four modernizations.

The crucial factor is people's unity. To achieve unity, we must have a firm faith. We can unite the people only through faith. Our faith was in communism during the struggles of the past several decades. It should be the common faith of millions upon millions united as one. With this faith, we can overcome any difficulty and setback.

9411

CSO: 4005/788

LIU BINYAN ON LITERATURE, SOCIAL RESPONSIBILITY

Beijing WENXUE PINGLUN [LITERARY REVIEW] in Chinese No 1, Jan 87 pp 11-14, 10

[Article by Liu Binyan [0491 6333 7159]: "A Layman's View of Novels"]

[Text] On the 3d day of the Second Meeting of the Fourth Board of Directors of the China Writers Association, a girl rushed into the Jingxi Hostel, looking for Comrade Feng Mu. After learning that he was not there, she came to my room and took out a bag of materials--written materials, photographs, and video tapes. Then, an unusual story about an unusual man was presented before my eyes.

Chen Jianlin [7115 1696 7207], a 44-year-old artist who has devoted his artistic life to the famous Wuyi mountain since 1976, is now going to sacrifice his life for the mountain for he wants to live and die with the mountain. Since local authorities plan to destroy the "Deforestation Monument" erected by Chen Jianlin and the Wuyi Mountain Administration, Chen Jianlin is determined to guard it with his blood.

What kind of monument is it? Why was it erected? And how did it become the target for a life-and-death battle? Let us take a look at its inscription.

"The scenery of the Wuyi mountain is best known for the twists and turns created by winding rivers flowing through zigzag valleys lined with towering, breathtaking mountain peaks; roaring waterfalls form streams, ponds, and sometimes unbelievable thundering rapids along their course. Where rivers are serene, the shapes of mountains can be changed at the touch of a punt-pole. This is the only place in China where one can enjoy the scenery of a mountain on a boat.

Some people say that clear waters and lush trees make a mountain beautiful. Old trees were rare to begin with, they are now almost nonexistent after years of felling. The local people are basically honest people. But when it comes to forest protection, they seem to be utterly ignorant. Due to a widespread practice of indiscriminate deforestation, this beautiful scenic area is now left with only 67 old trees. This really hurts.

Thirty years ago, first due to the blowing of the wind of communism and then due to the massive iron and steel smelting, the clinking and clanking sound of

lumberman's axes was heard night after night. Later, during the 10 years of turmoil, two production brigades--Tianxin and Xingchun--went so far as to set up lumber yards in the middle of scenic areas, which did the worst damage to the beauty of the mountain..."

Since then, the calamity has not stopped. The sound of fallen trees hurt Chen Jianlin so much that he had to leave his easel in anger and plunged into the forest-protection struggle. In order to protect a tree, sometimes he would cry and beg axe-swinging, poor and lower-middle peasants to stop, bargain with them on how much he should pay them to do so, run several miles to his home to get 20 to 30 yuan, and then run back to pay the illegal lumbermen for saving the life of a tree.

The "Deforestation Monument" was a result of futile entreatments, protests, and arguments he staged over the years. Out of indignation, he carved the names of those lumbermen who ignored advice on the monument to show the public and warn the new comers. This action, of course, not only infuriated those who were named but also humiliated those officials who had long been derelict in their duties. This is why they are anxious to destroy the "Deforestation Monument" and why Chen Jianlin's safety has become a problem.

Five days later, another artist from the Huang mountain came knocking on my door. His name is Liu Hui [0491 2547]. The Rongbao Bookstore has published a collection of his paintings. State dignitaries have often used his landscape paintings as gifts to foreign heads of states during their trips abroad. And yet he was willing to lay down his brushes, ignore his friends' advice, and be separated from his family so that he could run around as if possessed between the Huang mountain and Beijing to appeal repeatedly to various departments and leaders of the central government to heed the people's voices of the Huang mountain and stop a few cadres of Anhui Province and local authorities from violating higher levels' decisions and acting on their own to change administrative divisions and undermine the development of the Huang mountain tourist district.

In sum, artist Liu Hui, like Chen Jianlin, has also given his fate to the targets of artistic undertakings--the mountains and waters of the Huang mountain. Therefore, he can also be called an unusual character.

What do these stories have to do with contemporary Chinese writers? Of course, I am not asking all writers to put down their pens or use their pens to interfere with life because in the eyes of many writers, it is an outdated or even almost stupid thing to do. "You want to interfere with life? Just wait and see how life will settle with you!" Besides, they say in a socialist society led by the party, proper arrangements have been made for everything in life. Even if something does go wrong, what can you do with your pen? Do we not always rely on the party to solve the problem?

We do not need to be fools like Chen Jianlin and Liu Hui. I only mean to raise a small question: Do people like them deserve a look from Chinese writers who are also artists?

Similar unusual characters and incidents can make up a long list which by no means is limited to artists. As far as I know, there are at least 10 scientists and inventors who are waging a heroic, bitter struggle against their fate in different corners of China. Of course, there are also politicians. Not long ago, I was lucky to meet an ousted woman deputy director of the organizational department of the party committee of a northern province. If this piece of reportage can be published, I would even call it "a young man who is new to the organizational department." But the author and the story of the leading character are totally different from the novel of the same title which was written by Wang Meng [3769 5536] in the 1950's.

When I thought of the novels that have been written in the last 2 years, my first feeling is that they are not quite in harmony with real life. Promoted by the circles of critics and non-critics, Chinese novels written in the past 2 years have become "thinner and thinner." They want characters and plots to be "thinner and thinner" until they become completely disappeared. Have writers' feelings for life and people also become thinner "simultaneously?" This is really worth study.

Nevertheless, life has become "thicker and thicker." To what degree? Millions upon millions of peasants have overcome or are overcoming new and old patriarchal relations and the status of personal appendages to become independent, free men. Many reformers, non-reformers, and even ordinary people have lost their freedom and found themselves behind bars. The political system is exactly the same as it was before 1966 while the situation in which the good are not (properly) protected and the bad are not (properly) punished is still developing. (Footnote 1) (According to the telegram of the China's News Agency on 27 in Beijing, Zhang Siqing [1728 1835 0615], deputy director of China's highest people's procuratorate, said: "Cases on extortion of confession by torture, illegal detention, false accusation that seriously encroach upon citizen's democratic and personal rights are currently on the rise. Some cases have even caused injuries and deaths." "Crimes generally are linked to positions or positions are used to commit crimes. In many cases, one man commits the crime, but many people plead for mercy for him, both higher and lower levels try to protect him, and people from all circles try to interfere.") At the same time, many unusual men and women have emerged in all areas and fields of China. They dare to stand up, resist those with power and influence, uphold truth, and fight in isolation, and they would not regret even if they lose their lives. They are the real heroes of today's China.

A perfect expression for this is: life is as thick as fine cream and novels are as thin as clear water. What makes it even harder to understand is that this phenomenon happens to occur at a time when literature has a "root-searching" fever and novelists go after themes of national culture and tradition and national characteristics like a flock of ducks. Since the characteristics of a nation is composed primarily of the characteristics of the reality of society in which the nation exists, they should also be the characteristics of the writers of this nation and thus reflected in their writings. Dostoyevsky can only come from Russia. Dickens cannot be German. Lu Xun's "Diary of a Madman" is different from Gogol's, and it would not even be the same as that written by a contemporary Chinese writer. It is of course

not impossible to force the birth of a Joyce in China in the 1980's, but we can be sure that he cannot represent this country of this era.

Judged by the levels of economic, political, and cultural development, today's China not only lags far behind the West of our time but also lags behind the West Europe of the late 19th century. In some aspects of our life, we are experiencing a change that is similar to the Renaissance in nature. This is where we lag behind.

But, we have many advantages over other countries. I dare say that there is no other country in the world that has ever gone through what China is now going through--an unprecedented process of extensive, profound, and drastic changes which are filled with dramatic conflicts. Prompted by the planned, organized, and step-by-step process of economic reform which starts from top to bottom, changes have occurred in every urban and rural corner of China and every aspect of life. Covering politics, economy, culture, and social psychology, such changes are no longer limited to the economy; they have become self-motivated social changes. Like human history, they will in the next few years or decades continue to bring about in some unexpected fashions some phenomena that will surprise some people and worry others.

In this sense, Chinese writers are wealthy men who have no need to feel inferior before foreign writers. People should envy us, not them. Is it possible that a Chinese writer would have problems finding fresh and meaningful subjects to write about? It would not happen at least for one hundred years. Which country's writers have so many lovely readers? Compared to Western writers, Chinese writers are highly respected by the people (unfortunately not by all the people, especially not by those who have decisive influence on writers' creative conditions). Perhaps, not all writers can feel all the love, respect, and expectation that the people have for them; otherwise, they would know that their pens actually carry a lot of weight.

So, in the early 1980's when I felt a force trying to turn literature into music or paintings and later when novels divorced from society, ideology, and rationality became a trend, I was terrified and worried.

The works of Mark Twain, O. Henry, Jack London, Dreiser, Steinbeck, and even Whitman are excluded from the temple of arts by many critics in the United States. But, it is rather early for such a trend to be appearing in China. When the West was publishing books on special subjects such as "Politics and Literature" and "Politics and Novels," politics already became the enemy of arts in the eyes of some Chinese writers and critics. In recent years, studying and copying Western modernists has become a common practice, but they have ignored the critical and rebellious spirit that some factions in the modernist school and many artists have in dealing with irrational social phenomena. I think I will not be exaggerating if I say that some of our critics are leading our writers in the direction of artistic aristocracy and ideological idiocy.

Are the social and artistic functions of literature really against each other? Today's Latin American and West European writers (such as Heinrich Boll, who passed away not long ago, and Gunter Grass, who is living and in good health, of West Germany and Graham Greene of England) are examples of the contrary. The role played by Turgenev in Chinese history particularly deserves our study. This aristocratic liberalist writer would never imagine that 80 to 90 years later in China his writings could inspire generations of young people to adopt a critical understanding of Chinese society and encourage them to turn to revolution and the struggle of resistance against Japan. A copy of "Fathers and Sons," even a copy of "Rudin" or "Home of the Gentry," can change the road of a person's life. Where does such power really come from? How can the mixture of arts and ideology in Turgenev's works have such a great impact on Chinese youths whose social environment, political standing, and cultural backgrounds are totally different still remains a question to be studied. Perhaps, this is a special phenomenon occurring under a special circumstance, and writers should never even attempt to seek such an effect (Turgenev would never have the ambition to conquer Chinese, not even in his dreams). But, we can be sure that the social aspect of literary works has not undermined their artistic life and that the artistic aspect has in turn expanded and extended the life of the social aspect.

The debate over the aesthetic values and social functions, as far as the novels written in the past 2 years are concerned, is to a large extent the debate over the relations between the subjectivity and the objectivity of a novel. For several decades, our novelists had to suppress and eliminate the place of subject in creative writing, which was wrong. But, novels are after all different from music and poetry; they have a closer relationship to the objective world than to the subjective. I always think what Goethe said 160 years ago is still true today, although some people have refuted his views. I would like to quote you some of his remarks he made on 29 January 1826 during his conversation with Ackermann. When talking about that day's performance by Wolf, an impromptu singer, Goethe said to Ackermann: "...There is no doubt that he has distinct talents, but he also suffers from the common failing of this era, namely the mistake of being subjective. I thought of a question to test him. I asked him to depict his way back to Hamburg. He got ready immediately and then recited a passage of rhymed verse with confidence. I could not but feel surprised, but I did not appreciate it. What he depicted was not the way back to Hamburg, but the emotions he had when he returned to his parents, relatives, and friends. His verse was the same whether it was used to depict the way back to Hamburg, Magdeburg or Jena. But, what a noteworthy strange city Hamburg is!" "If a person wants to learn how to sing, those sounds within his natural range are easy for him whereas those outside the range would be very difficult for him at the beginning. But, if he wants to be a singer, he must overcome those difficult sounds because he must be able to control them. So is the case with poets. It is nothing if he can express merely his subjective sentiments; once he masters the world and then expresses it, he will become a poet. After that, he will have inexhaustible writing materials and constantly come up with new things in his writings whereas a subjective poet will soon exhaust the limited materials of his inner life and get into a rut." "All retrogressive and declining eras are subjective whereas all progressive and rising eras tend to be objective. Our era is a retrogressive one because it is subjective. This is reflected not

only in poetry but also in paintings and many other fields. Contrary to this, all healthy efforts always shift from the inner world to the outer world, and, as you see, all great eras have strived to make progress and had objective characteristics."

Sixty years after Goethe said these words, modernistic arts emerged in the Western Europe. Modernists not only proved what Goethe said was true but also revised and improved it. Of course, Goethe did not deny the function of artists' subjective conscience in arts probably because he thought it was self-evident. Artistic development in the last century has expanded the role played by the subject of artist in creative writings, but it has also proved that there is no future in the absolute introversion of arts. In the past 40-some years in Chinese literary history, which is unique in a way, the subject of artist has been basically eliminated while no respect has been given to objectivity and objective realities have been wilfully rejected, tailored, or even reversed according to political needs.

Now writers have more freedom to express their selves, but unfortunately, the phenomenon Goethe talked about has occurred again. Take the works of "reportage" for example. What readers see in such works are different states of mind that the writer had when he went to Hamburg, stayed there, and returned from there while very little is told about Hamburg itself (many things that are significant to Chinese have now been added to the life of the "noteworthy strange city").

The enhancement of subjective conscience in the creation of novels in the past few years undoubtedly represents progress. But, if this tendency is not to make the expression of the objective world more profound but to merely express the particularity of selves (in the ways of feeling and expression and in language), and thus causes readers to be separated from the objects of depiction in the novel and makes the objective world more obscure and mysterious, I am afraid we cannot refer to it as a progress.

I could vaguely see that a danger is drawing near.

Due to the closeness of Chinese society and the hidden, not open, existence and development of many social phenomena, it is very hard for Chinese writers, especially young writers, to understand and master China's realities. If writers are complacent and lack a strong interest in understanding the objective world, it is very likely that they will isolate themselves from the the main stream of life.

The present realities of China are so complicated, strange, and treacherous that without great efforts it is very difficult to grasp their essence.

Yet, critics' excessive praises can easily cause some young writers to become complacent and over-confident and thus not anxious to tighten their ties with real life.

Moreover, due to silent advocacy, the number of young writers showing real concerns for realities has declined markedly since 1980. It is difficult to control the degree of the "sense of social responsibility"--bad if it is low

and troublesome if it is high--and times often change like unpredictable weather. All this is unfavorable to directing people's eyes to the struggle that determines China's future. Now, readers' eyes are gradually moving away from novels. It seems that some writers do not mind that readers are indifferent.

Compared to the press (reportage) and drama, movie, and academic circles, novelists enjoy the most freedom. Because of this, readers have a reason to expect novelists to create works that carry as much weight as "Enlightenment of a Floodplain," "Nirvana of Gouerye," "The Black-cannon Incident," and "Celebrities of a Small Alley" do. Unfortunately, some writers have no intention of fully utilizing the freedom they possess. In the past 2 years, very few novels have been a shocking success.

Fortunately, the literary circle has people like Chen Jianlin of the Wuyi mountain and Liu Hui of the Huang mountain who will battle loneliness and closely embrace reality. I think, in China, really great works can only be produced by writers who write about China's great realities and truth.

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CSO: 4005/595

LIU BINYAN'S JOURNALISTIC VIEWS CRITICIZED

Beijing XINWEN ZHANXIAN in Chinese No 3, 1987 pp 3-4

[Text] From September to December, Liu Binyan [0491 6333 7159] made speeches in Heilongjiang, Tianjin, Anhui, Fujian, and Shenzhen, and a considerable portion of these speeches was about journalism. What attracted people's attention in these speeches was about "my views on journalism." He said: "Newspapers in other societies (meaning Western countries) are not all-powerful. But why are they named the third force after only the government and the parliament? ... This is not without reason." At a symposium commemorating the 100th issue of FUJIAN QINGNIAN [FUJIAN YOUTHS], he said: In Western countries, "newspapers have become the fourth major force after the legislative, the executive, and the judicial branches of government, or the fourth most important social force." He even predicted that "in future, socialist countries will, probably without exception, take the same course."

In his talk at the symposium of editors and reporters of SHENZHEN QINGNIAN BAO," he said: "I visited the United States in 1982 and made a point to learn about its journalism. The first impression I had was that people do not treat newspapers as a tool or a means of propaganda. The term "tool" stinks in the United States, and the term "propaganda" is not tasteful either. Its television, radios, and newspapers play very effective roles as tools or means of propaganda. We listen from morning to night to the party's voice and tools of propaganda." "...We are now confronted with a major theoretical problem, because we are making a clean break with all things capitalist, and consider them unacceptable. Of course, they include journalism; the stronger its political tone, the more unacceptable they become. In my opinion, however, a common trait should be of prime importance."

From his speeches, it is not difficult to see that he not only obliterated the essential difference between proletarian and bourgeois newspapers, but also wanted our newspapers to discard the principle of party spirit, to be divorced from party leadership, and to learn from Western newspapers so that we may become a "force" on the same plane with the legislative and the executive branches.

Proletarian newspapers have a distinctive party spirit. They serve as the voice and the mass media of the party and the people. This principle is unshakable. Marx, Engels, and Lenin all used newspapers and journals as a

means of revolutionary struggle as soon as they engaged in revolutionary activities. In his letter to August Babel, Engels said: "What the party first needs is an organ of a political character." (Footnote 1) ("Collected Works of Marx and Engels," Vol 34, p 360) In his article "Marx and the NEUE RHEINISCHE ZEITUNG," commemorating the first anniversary of Marx's death, Engels reviewed Marx's militant career in founding the first proletarian organ the NEUE RHEINISCHE ZEITUNG. In summing up the experiences of this newspaper run under Marx's guidance, he stated even more clearly: "Thus when we founded a large newspaper in Germany, our banner was determined as a matter of course. It could only be that of democracy, but that of a democracy which everywhere emphasized in every point the specific proletarian character which it could not yet inscribe once for all on its banner." (Footnote 2) ("Selected Works of Marx and Engels," Vol 4, p 178) The history of proletarian revolutionary struggles shows that before the founding of a proletarian political party, newspapers were the mass media of party building. After the birth of the party, newspapers are the "principal means to consolidate the party" (Footnote 3) (Lenin, "Announcement of ISKRA Editorial Department," "Collected Works of Lenin," Vol 4, p 315) and "to disseminate Marxism among the masses," (Footnote 4) (Lenin, "On the Current Situation of Russian Social-Democratic Party," "Collected Works of Lenin," Vol 18, p 202) "the tool to educate and unite the truly advanced class," (Footnote 5) (Lenin, "Talk on Summing Up and Facts," "Collected Works of Lenin," Vol 19, p 43) and "the important weapon to organize the working class. (Footnote 6) (Lenin, "Report of the Central Committee of Russian Social-Democratic Labor Party at the Brussels Conference, and Its Instructions to the Delegation at the Conference," "Collected Works of Lenin" Vol 3, p 601) After the victory of the proletarian revolution, and seizure of political power, that is, during the transition to socialism, newspapers become the "tool of proletarian dictatorship" (Footnote 7) (Lenin, "On the Character of Our Press," "Selected Works of Lenin" Vol 3, p 601) and "socialist construction." (Footnote 8) (Lenin, "The Immediate Tasks of the Soviet Government," "Selected Works of Lenin" Vol 3, p 513) Newspapers have always had their class character or party character as well as their strong political character. They are so in socialist countries as well as Western countries. In the world, there can be no newspapers with no class character, or with a character that transcend all parties. The only difference is that one shows its class character plainly to the readers, and the other conceals it.

On his visit to China for academic exchange in the early 1980's, Mr Cline, president of the College of Journalism in Minnesota, said: In fact, U.S. journalism generally reflects the entire U.S. bourgeois viewpoint and ideology as well as the important political views of the U.S. government and the social organs. Similarly, in any other country in the world, newspapers also reflect the ideas and views of the press organs' people."

Liu Binyan's statements are in fact self-contradictory. He wanted our newspapers to learn from their U.S. counterparts in not serving as a tool or a means of propaganda for the communist party, and at the same time admitted that U.S. television, radios, and newspapers play the role of propaganda tools very effectively. Let me ask: For whom do they serve as propaganda tools? Can it be claimed that they are above classes, groups, and parties? Can there be any such newspaper in the world?

Liu Binyan has a negative attitude toward not only the character of our newspapers, but also toward the newspapers themselves. He said: "Now I want to make a bold statement. In my opinion, the newspapers in China, especially those published by various departments of the central government, are not newspapers in the real sense." "Judging from the overall national situation, I can say that newspapers in Chinese are not real newspapers." Can his negative attitude toward China's newspapers be justified? For more than 30 years, our newspapers have made due contributions in disseminating Marxism, Leninism and Mao Zedong thought and in encouraging the people in socialist construction. Despite their shortcomings, and sometimes serious shortcomings, their achievements are primary and the main trend is healthy from the historical point of view. Particularly since the 3rd Plenary Session of the 11th CPC Central Committee, our newspapers, as the voice of the party and the people and the tool for people's democratic dictatorship and socialist construction (including the development of spiritual and material civilizations) have undergone gratifying changes along with the development of various socialist undertakings. In propaganda, our newspapers have translated the line, principles and policies of the party and the government into conscious action of the cadres and people. They have also played, and will continue to play a tremendous role in educating and uniting the people, unifying the thinking of the masses, encouraging the advanced, and spurring on the backward, and have won many victories for the socialist cause. Of course, we have to be soberly aware of their mistakes and shortcomings of one kind or other, and precisely for this reason, we must firmly uphold the four cardinal principles and continue to reform them under correct party leadership, in order that our newspapers will be read, cherished, and trusted. Of course, the reform we talk about does not mean a radical change of character, but rather a self-improvement and self-development without changing the basic character of socialist journalism.

In his speeches, Liu Binyan repeatedly said that "journalism is something unique from the day of its appearance." He emphatically stated: "Journalism has a special mission. It should offer a special service to society in a special way." He continued: "We must strongly demand freedom of the press." "We don't want to be uncrowned kings, but we don't want to be the third grandson either." From these remarks, we can see that he persistently stressed the importance of the so-called "third force" or "fourth force." In other words, he wants our newspaper workers to be free from any restriction and to act as they please as a "special" force. As correspondents of a party organ and members of the party, we must strictly observe not only the constitutions of the party and the state, but also the propaganda disciplines. Such observance should be the correct way to show our newspapers' firm adherence to the principle of party spirit. This is exactly where Liu Binyan stressed the need for a "unique" and "special" character. He failed to set right the relationship between himself and the party organization, and that was why in many of his public speeches, he exaggerated and distorted the defects and mistakes of the party and the government and the seamy side of the socialist society, and spread pessimism, despair, and dissatisfaction among the masses toward party leadership and the socialist system.

In order to implement comprehensively and correctly the line, principles, and policies adopted after the 3rd Plenary Session of the 11th CPC Central Committee, the policies of reforming the economic structure, opening to the outside world, and invigorating the domestic economy, and the four cardinal principles; and to further promote China's socialist modernization, we must temper our newspapers in the current struggle against bourgeois liberalization. Then they will be better able to adhere to the principle of party spirit and the political orientation of serving the party, the people and the socialist cause, and will strive to create a new situation for doing a good job as the voice of the party and the people.

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CSO: 4005/788

BRIEFS

CADRE DERELICTION OF DUTY INCREASES--According to statistics, this year procuratorial organs nationwide have investigated three times as many cases of dereliction of duty than in the same period last year. Between January and October procuratorial organs nationwide have investigated and disposed of more than 3 cases of deaths, direct economic losses of over 100,000 yuan, and 835 major cases of dereliction of duty on the part of cadres. In the investigation of these cases of dereliction of duty, the various procuratorial organs focused on three types of cases: 1) using close coordination to strike at criminal economic activities, and investigating cases where dereliction of duty was related to criminal economic activity; 2) investigating cases of dereliction of duty within economic activities, especially in the areas of financial, industrial, and commercial credit management. [Excerpts] [Beijing ZHONGGUO FAZHI BAO in Chinese 4 Dec 86 p 1] 6080

CSO:4005/383

DISCUSSION ON ESTABLISHING TWO NATIONAL BUDGETS

Beijing JINGJIXUE ZHOUBAO in Chinese 8 Mar 87 p 6

[Article by Tong Shan [4547 0810] of the Ministry of Finance, Science Research Institute]

[Text] Changes in the finances of socialist countries are the theoretical prerequisites for practicing a two-budget system.

According to traditional financial theory, the major function of finance is distribution, generally called the raising and supplying of capital. It therefore neglects the microeconomic regulating function of finance toward the overall economic life of society. Along with the development of financial theory and practice, people gained new knowledge of the function of socialist finance and then explicitly raised the issue of the regulating function of finance. There are two major functions of finance: one is to distribute society's production and national income, the other is to carry out micro-regulation of the national economy.

Because of the changes in the functions of finance, the present single national budget can hardly meet the needs of the new situation. In a sense it has already become a factor influencing further development of the financial reform. According to objective demands of the functions of finance as well as those of the planned commodity economy, socialist finance not only has to guarantee steady, ample national income to satisfy the needs of the state to carry out various functions. It must also regulate rationally material benefits between members and groups of society and increase the effectiveness of the use of financial capital. In other words, the use of financial capital cannot be for free, a portion of it must yield returns.

Let's presume the present national budget can be divided into a funds budget and a development funds budget. To adjust to it, financial capital gathered from national finance will also be divided into two parts according to the consumption and supply method: One part is to be included in the funds budget to provide funds to the consumption unit which do not have to be repaid. It is mainly used for expenditures for national defense, administration, and public welfare services and for building basic facilities and nonprofit organizations. The other part will be included in the development funds budget for use on profitmaking key construction items and for establishing

finance credit foundations. The use of this part of the capital should enhance the concept of economic profit and practice methods of supply with repayment. Based on the above principles of budget division, the present revenue and expenditures course of our national budget will also need greater adjustments.

After our national budget has made the above changes, finance will no longer practice direct management of financial affairs of state-owned enterprises, such protective policies as deficit subsidies and circulating-capital subsidies. Taking responsibility for profit or loss, the enterprises should set policies themselves on their own production and management actions that include financial management of capital and cost, development of new products, granting of employee bonuses, and price adjustments of products. The policy should be based on pertinent government decrees, system policy, and the objective law of a planned goods economy. The state should apply mainly economic levers, such as tax revenue, credit, prices, and wages, to carry out microeconomic regulation and indirect management of the production and management actions of enterprises. The state should also take on the double status of deputy of society (state power) and owner of the means of production (investor) to participate through the two forms of taxation and division of labor (or other forms) in the distribution of society's production created by enterprises. After the state takes its deserved share, the enterprise is free to allocate the remainder without further interference from the state. The enterprise must reach certain profit levels according to the demands of investors. If it is mismanaged, taking losses, or having difficulty carrying on business, even bankrupt, the state, as investor, has the right to investigate and affix the responsibility of the managers (mainly the factory director and manager). Actually, the same time an enterprise obtains the necessary power and benefits, it also assumes the necessary management risks. Under such circumstances, the survival and development of the enterprise and the rate of employee wage increases are determined directly by the management level of the enterprise. They are determined by competitiveness and market flexibility of the enterprise manifested in production technique, quality, cost, and profitability. Since employees' personal profits can no longer depend on the state's preferential policy but are closely tied to the destiny of the enterprise, no employee will be unconcerned about the enterprise's future. This is just the result expected by establishing the self-restraint mechanism in enterprises.

Does this mean finance will have nothing more to do in the production area? Of course not. But management should be rid of the old direct, overly detailed way of managing enterprises. It should instead focus on the overall picture of the national economy. Of the financial capital included in the development funds budget, a portion should be invested in profitable key construction items. Bids will be taken for construction items. They will be handed over to be run by managers after construction is completed. Finance will only represent the state and collect taxes and share bonuses. The other portion is to be used for establishing financial credit funds to help sustain those enterprises producing required goods for the national economy and the people's livelihood and are also in urgent need of capital. However, such support will

have to be repaid. This hardens the budget restraint on the enterprise and puts real pressure on it. This will force enterprises in their policymaking on production and financial affairs to consider balance not only in the increase of employees' personal income but also in the accumulated and expanded reproduction of the enterprises. Therefore, enterprises will exercise self-restraint in consumption tendencies that are heedless of consequences and apply more capital to technical restructuring and developing new products to enhance reserved strength for production. There is no denying that after establishing a two-budget system as stated above, some enterprises might go bankrupt or close down since basically finance will no longer subsidize losses or grant more circulating capital. I think this is a normal phenomenon under the conditions of planned commodity economy. Enterprises that are mismanaged, produced low-quality products at high cost, have old and dated designs and variety, and lack the ability to compete ought to go bankrupt and be closed down. If they are allowed to survive by the past way of financial transfusion (subsidy) it is doubtless a huge waste of social financial resources and manpower. It does not reflect the superiority of socialism that finance maintains the survival of some enterprises by means of continual subsidy. It is protection of backwardness, an abuse we must get rid of. Some people are concerned that if some enterprises shut down and go bankrupt, national property will suffer losses, financial income will decrease, and enterprise employees might lose their livelihood. I don't think anyone will disagree that property of the bankrupt enterprises still belongs to the state because we are under a public-ownership system. No factor director or employee of any state-run enterprise would take property away with him. Only when conducting an inventory of the bankrupt enterprise would a small portion of property be used to repay individual creditors. But for the major portion of the property only the right of use, not ownership, is transferred. It is needless to ask when an enterprise can hardly survive with subsidies what kind of financial revenue it can offer to the state except consuming state capital for nothing. It is the problem of the employees' livelihood that needs to be dealt with seriously. Yet it is not insoluble. For example, setting up relief funds to provide social security is one of the methods that can be chosen.

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SUGGESTIONS ON FOREIGN DEBT MANAGEMENT

Beijing JINGJIXUE ZHOUBAO in Chinese 1 Mar 87 p 1

[Article: "Luo Jingfen [5012 4737 1164] of the State Planning Commission Writes an Article Emphasizing That Foreign Debt Must Be Kept Within Reasonable Limits and That We Fully Consider Our Ability to Repay"]

[Text] In a recent article, Luo Jingfen of the State Planning Commission emphasized the need to keep the scope of foreign debts reasonable, and consider carefully the ability to repay.

He said that in recent years China has borrowed large sums of money from abroad, and although the country's four modernizations have benefitted from these loans we must keep borrowing within reasonable limits, otherwise it would lead to serious consequences. Internationally two indicators are used to determine if a country's debt level is reasonable: one is whether the outstanding debts exceed the total foreign income generated by exports in that year; the other is whether principle and interest payments exceed 20 percent of the foreign income generated by exports during that year. We must constantly monitor these indicators and be aware of any changes.

Luo pointed out that China's foreign debt has increased dramatically in the last 2 years, and that principle and interest payments have soared. Not only have we borrowed more money but the loan structure has become problematic: a large portion of these loans are high interest, short-term, and high-risk commercial loans. Some departments and local governments take out commercial loans on their own and find themselves unable to repay; some cannot even pay the interest. We must be more vigilant and prepared for emergencies.

Luo suggested that to keep the scope of foreign debt reasonable, we must, one, consider our export capabilities and whether we can generate sufficient trade surplus during the loan repayment period. We must limit the annual principle and interest payment to within the range of our anticipated trade surplus. Two, in the future, foreign debt should be used primarily to develop projects which produce major consumer goods, for export or as import substitutes, to increase export capability and earn more foreign exchange, and improve our ability to pay off foreign loans. Three, establish a loan repayment responsibility system. When borrowing money, always make sure that we can repay to avoid defaulting on loans, and we should never be overzealous and end up burdening the state

with more debt. Four, not only do we need a long-term borrowing plan, we must also have a practical repayment plan, and must regularly verify our compliance with those plans. At present we urgently need to continue to work out and perfect an international payment plan, and put our earnings in foreign exchange from trade and non-trade sources, our absorption of direct foreign investments, and our foreign debts under one unified plan. Five, improve the debt structure: make sure that loans have different maturity periods, and obtain loans in several different currencies to correspond to the kinds of currencies earned through exports so that we can better handle any kind of emergency in the international financial market.

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PRICE REFORM ISSUES DISCUSSED

Nanchang JIAGE YUEKAN [PRICING MONTHLY] in Chinese No 12, 15 Dec 86 pp 2-6

[Article by Ri Xin [2480 2450] of the State Council: "Thoughts on 10 Price Reform Issues"]

[Text] 1. On Price Reform Goals

The national economy is a major system, and prices are one of its subsystems. Thus, price reform goals must be subordinate to, and not stand alone in contradiction to, the general principles of national economic goals. This should be the criterion for both reforming price management and regulating the price system.

At present, the general goals of national economic management are to give enterprises management autonomy and make them assume sole responsibility for their profits or losses, perfect the market system, change the emphasis of state management from direct to indirect control, and ensure that price management is devolved to lower levels and invigorated. Except for ensuring that the state sets prices for and directly controls a few commodities of major importance to the national economy and the people's livelihood, the authority to set and change prices for all the rest should be given to the enterprises or workers that are engaged in production management, and they should be guided in various economic and legal ways. A few minor commodities can be completely deregulated and allowed to rely on market regulation alone. This will form a structure in which state-set, state-guided, and market-regulated prices coexist, enable the enterprises that produce and manage commodities to have relatively complete management autonomy, and ensure that price changes and the price structure basically accord with state planning and development needs.

China has a planned economy, and planned goals for national economic growth. As a result of uneven economic growth, there are always surpluses and shortages in realizing planned goals, with industries and commodities that must be developed, and those that must be eliminated. If enterprises have autonomy, a rational price system should be able to spur funds, labor, and resources to flow toward those industries and commodities that must be developed, and away from those that must be eliminated, ensuring that shortages are supplemented and surpluses controlled. This is the way that prices regulate production.

2. On the Feasibility of Price Balance

When discussing price and system reform, some comrades argue that price balance is ideal. But they forget that price balance presupposes "unrestricted competition," which is impossible in the present age. Bourgeois scholars understand this better than we. The American economist, Paul Samuelson, wrote: "Competition is still not unrestricted in the real world, because 'unrestricted competition' exists in only one situation, in which no farmer, industrialist, businessman, or worker could control enough of the market to enable him as an individual to affect market prices." That situation exists neither in China nor in the so-called free world in the West. So-called price balance is merely an academic illusion of Western scholars. The Japanese claim that they practice free trade when, in fact, they do not. Otherwise, they would be eating American grown rice instead of their own when the former is not only better but much cheaper. At present, protectionism is rampant in the Western countries (the strongest evidence is the antiprotectionism that has developed in response), there is state intervention under many pretexts, such things as highest price limits, lowest protected prices, and threshold prices can be found everywhere, and such noneconomic measures as the matched import quota system are also in use. No country with these kinds of stipulations can be said to have price balance. Prices in some monopolistic public utilities are simply set by the state, and readjustment of fixed prices in some countries is even subject to the approval of parliaments. This is even less price balance. Since all talk of price balance is mere idle theorizing even in capitalist countries, how could it be feasible in socialist countries?

I am certainly not against transferring to production management units some or even most of the excessive state power to set and adjust prices, or changing from direct to indirect control, but "deregulation" should not be regarded as the only way to accomplish this, and a certain amount of state price intervention will still be necessary.

3. On Establishing a Structure That Stresses Planned Prices Adapted to the Market Mechanism

Studies of China's situation should never be divorced from our national conditions. Proceeding from our national conditions and based on our goals, foreigners' ideas should be studied only to select the best for emulation, while rejecting the rest.

China is a large country with a huge population. Although our national revenue and expenditure and GNP are not low, we are still considered a developing country based on our average per capita income. This means that if we concentrate our manpower and material resources, we can succeed in undertakings that some small but rich countries could not. But if we decentralize, we will be unable to accomplish anything. Therefore, our economic construction must still stress central planning and decisionmaking instead of market regulation. Even though experience has proved that it is indispensable, market regulation can only play a helping, supplementary role in a planned economy. Based on this, I think that China's market price management should also stress planned prices. Planned prices include both those that are set, and those that are

guided, by the state. These two should occupy an absolutely dominant position in the total volume of market trade. Planned prices should be used for all the major means of production and means of subsistence that affect the national economy and the people's livelihood, in order to ensure continued, steady, and coordinated national economic growth and the stability of the people's lives. Most planned prices should be set by enterprises, with state planning and guidance. The state can choose various means to guide prices, such as setting specific prices and the limits for floating ones, regulating state-owned enterprises according to state revenue and expenditure plans, changing and influencing supply and demand relations to achieve required, planned price levels, and using such measures as taxes, banking, foreign trade, trade coordination and restriction, and laws to influence supply, demand, and prices. In summary, after price management is changed, the job of planning prices will not be easier, but will be more complicated and require greater efforts instead.

4. There Must Be a Contingency Mechanism for Prices

In the past several decades, China has put too much emphasis on the aspect of price stability. We have not dared to change prices that should have been changed, even taking many years to finally decide to make such minor changes as raising the price of a box of matches 1 cent. Much reform energy has been required to solve long-accumulated problems. Neither the state, enterprises, or individuals have been able to design plans for simultaneous action, there has been very little room for maneuver, and it has been very hard to take nonsimultaneous action based on predetermined plans because of constant changes in objective conditions. Therefore, designed plans for price reform must include adequate contingency plans, have both long-range goals and the ability to proceed with caution, and be adaptable to actual economic trends. As are all things, the foundation of prices themselves, value, and the factors affecting their rise and fall, supply and demand, are always changing. In order to make prices rational and adaptable to changing circumstances, and spur the whole national economy to grow according to plan, there should be a timely contingency mechanism for prices.

No country has yet succeeded in conceiving a model for, and reforming its price system according to, a complete set of "rational" price plans. The theoretical reason for this is that this planning method tends to ignore change, and violates the basic demands of materialist dialectics; the practical reason is that drawing up this kind of price plan takes too much time (China's theoretical price-planning experiences shows that it takes roughly 3 years to make a plan), and "the matter is all over, and the situation has changed" by the time the data is acquired. Thus, this method of comprehensively designing overall plans itself is not very well geared to the realities of economic work. "Proceeding with caution" is safer, more reliable, and better able to solve real issues. Should mathematical models still be designed, and are they still useful? I think so. However, they should not be used to design complete reform plans, but rather, after making plans, as very valuable references to roughly calculate chain reactions, estimate the effect of price changes on all areas, and study the feasibility of plans.

5. Are Conventional Profit Margins Really Rational?

Average profit margins should not be used as the criteria for judging reasonable profits for all commodities in all trades and professions.

When discussing price theory, most scholars hold that average profit margins should be used as the criteria to judge reasonable prices for all commodities in all trades and professions. Some even hold that reasonable prices should be based on funds, others that they should be based on wages or cost, and still others that they should be based on "both wages and costs." This would seemingly enable prices to be geared to value or transformed value, achieve exchange at equal value, and be acting according to the law of value. This sounds quite reasonable but, upon scrutiny, is generally not so.

Under capitalism, production prices are a trend because competition tends to average profits among all trades and professions. But standard examples of true average profits in all trades and professions have not yet been found. Otherwise, there would be no way to explain why there are "developing industries" and "declining ones," why some professions grow while others shrink, or why capital keeps on circulating. It is precisely because profit margins are very unequal that they tend to be averaged. But profit-margin balance can never be achieved, because of imbalanced production growth and constant technical advances. Some of the various products produced by an enterprise make large profits, others make small ones, while still others cause losses. There are many kinds of price-setting tactics, such as "skimming," "infiltration," "being the first to capture the market," and "subsidizing losses with profits." The general goal is to enable the enterprise to make the most profits, which does not depend on whether or not an individual product achieves the average profit-margin level. According to bourgeois price theory, provided marginal cost equals the highest profit when pricing, and judged by a given commodity's profits, that product's (i.e., the product produced according to marginal cost) profit margin is exactly zero.

Under socialism, would it be reasonable to set prices according to conventional margins alone? I think exactly the opposite, and that a price system based on conventional profit margins would be most irrational. First, we stress the role of the price lever, and the need to use it to guide production and consumption. If profits were all uniform, what economic value would there be in diverting land, labor, and funds from one sector or commodity to another, and how could consumption be guided? Thus, conventional profits run counter to the need for prices to play their role as an economic regulation lever. Therefore, in price reform, a specific analysis should be made of the prices of all commodities in all industries. Those prices that can plan a regulatory role in production need not be changed, but those that cannot must be reduced as much as possible, and it is not necessary to make profit margins uniform, or to regard identical profit margins as the basis for competition. Second, a rational price system should make commodity producers more competitive and production more rational. From the viewpoint of both industries and enterprises, competition requires that profit margins be unequal. Eliminating industries and enterprises that have poor economic results in order to improve general economic results is the price that must be paid to make the economy

take off and be more rational. In summary, both industries and products "develop" and "decline," and prices must neither restrict the growth of "developing" industries and products nor delay the elimination of "declining" ones. This means that the profits of all products in all industries should be unequal rather than equal.

6. Should the Prices and Price Relations of Commodities Be the Same in Different Markets?

Prices are based on value, and value is based on the amount of work expended to produce commodities. The more work expended to produce a commodity, the higher its value. A different amount of work is needed to produce a given commodity in different markets and, thus, its price should be different in different areas. Only when there are proper regional price differences, can commodities circulate normally, various different areas develop their respective advantages and overcome their disadvantages, and the growth of a commodity economy be promoted. Therefore, the price of a given commodity should not be the same in the city and the country, in different regions, in big cities and small ones, or in different countries. It cannot be held that since price relations in a certain place are rational, it is irrational to have different price relations in other regions. Since fewer agricultural products are changed into manufactured goods in China than in advanced industrialized nations, our industry is undeveloped and our labor productivity is poor. We must strive to reduce the exchange price differences between agricultural and industrial products, but we must act according to the capacity of our industrial growth. Unconditionally and artificially reducing the exchange price differences between agricultural and industrial products would only cause new price chaos and agricultural and industrial product exchange imbalances. Since agricultural and industrial products are basically exchanged between farmers and the state, reducing exchange price differences in contradiction to our capability would result in there being no way for the state to recover the money it pays to farmers by increasing the supply of manufactured goods. Socially, this would result in less commodities and more money. Imbalances between the amounts of commodities and money is one of the root causes of both inflation and too many financial subsidies. Therefore, prices cannot be the same in different countries, or in advanced and backward regions within a country. Rational prices and price relations for each commodity must both be determined through a combination of the amount of work expended to produce that commodity in each market, and policy demands.

7. Regulating Supply and Demand Is Also Using the Law of Value

The law of value is an objective economic law. It is necessary to either act according to its requirements, or pay the penalty for violating them. Nevertheless, it is quite possible to conform to its requirements and use it to stabilize markets and the people's lives.

Acting according to the law of value is certainly not limited to regulating prices according to supply and demand, and regulating supply and demand with suitable prices is also using the law of value. China has experienced successes in this area. For 3 difficult years, the supply of staple consumer

goods fell far short of demand, and there was too much currency in circulation. If unrestricted market regulation had been relied on, the prices of daily necessities would have risen far too much, affecting the basic stability of low-income staff members and workers and, thus, that of the whole society. Two major price policies were adopted instead: First, the prices of 18 daily necessities were stabilized resolutely, rationing was enforced strictly, demand was controlled, and fulfillment of the people's basic daily needs was ensured, thus ensuring public order; Second, expensive goods were sold, prices were used to balance supply and demand, and the excessive social purchasing power was absorbed. Prices were changed to conform to supply and demand, and supply and demand was regulated to conform to prices, both of which were correct uses of the law of value. Thus, success was achieved in less than 3 years, production recovered quickly, much currency was withdrawn from circulation, and prices were stabilized and even fell. Therefore, market regulation should not be seen as the only way to let the law of value play its role, nor should rationing be regarded as a violation of the law of value when severe supply and demand imbalances occur.

8. It Is Time To Consider M_2 and M_3

As long as there are not outstanding changes in labor productivity, the price fluctuations of a given commodity are determined by its varying market supply and demand. General price variations are determined by the relationship between the money supply and the commodity supply.

When we studied the market money supply in the past, we generally considered only the currency in circulation on the market, i.e., M_1 . This was all right when the state exercised unrestricted direct control of the economy. At that time, except for causing some black market prices to rise, an excessive money supply only precipitated conditions, but did not apparently affect general price levels, while bank savings deposits apparently affected them even less, although they forced them up somewhat. Conditions are different now. Along with deregulation and invigoration of the private economy, imbalances in the relationship between the money supply and the commodity supply are inevitably reflected in price rises. If there were long-standing imbalances, money might become "inferior," and other "hard currency" be sought for, while bank savings deposits might be unable to continue to play their precipitating buffer role, and become a "tiger" that could assault the market at will. Thus, in considering the market money supply, we must not only consider the currency in circulation, but also bank savings deposits and, although their amount may be small now, there are negotiable securities that may increase greatly and become cash in the future. In other words, it is time to consider M_2 and M_3 .

It is the same for the commodity supply. We cannot consider it "rational because it exists," or that all products that are produced are suppliable commodities. It should be seen that China has long had a seller's market and a state monopoly for purchase and marketing. All those substandard and unmarketable "commodities" that are produced as commodities are guaranteed marketing by the state, kept in storage, and considered suppliable commodities.

Those that are really unwanted are finally sold at reduced prices years later. All that is necessary to see the severity of the problem is to look at the large amounts of substandard and accumulated goods and the large stocks of irregular materials and finished products. In order to improve economic results, substandard products should not be considered suppliable commodities, and national research should clarify the amount of unmarketable commodities. Moreover, a certain amount of commodity resources will have to be excluded as suppliable commodities in order to observe price fluctuation trends.

On one hand, the money supply must be well-calculated and, on the other, a certain amount of leeway must be allowed for in calculating the commodity supply. Only by eliminating those commodities that have value in name only can price fluctuation trends and margins be calculated accurately.

9. The Exchange Rate Must Be Set To Favor Strategic Export Commodities

Fluctuations in a country's foreign exchange rate reflect changes in the value of its currency. Changes in currency value also affect overall market prices, the prices of import and export commodities, and the balance of foreign exchange. Historically, the balance of international payments was maintained principally through the exchange of commodities, and it was feasible to determine the exchange rate based on the comprehensive exchange cost of export commodities. But the method of considering exchange cost alone, and linking it to a given currency, does not seem to work very well any more. This is because, internationally, each currency in circulation is regarded as a commodity by another country, and fluctuations in the value of a given currency are no longer determined by the issuing country's import and export commodities alone, but, what is more important, by the demand for this currency in other countries.

In addition to commodity exchange, the factors affecting currency supply and demand also include capital circulation and currency speculation, which far exceed the effect of commodity exchange. If our sights were set on one currency alone, and we used the comprehensive exchange cost of exchanging export commodities for this currency to determine China's exchange rate, changes in the value of our currency would not depend mainly on ourselves, but would be affected by fluctuations in the value of a foreign country's currency. This would put us in a passive and very unfavorable position. Commodities trading on international markets indeed does not rely on any country's domestic prices, but is transacted according to prices agreed on by both sides. The exchange rate is merely a means of conversion, and its suitability affects domestic production and national goals. Since economic growth is uneven and production advantages are different in each area and industry, no exchange rate can both favor exporting, and also preclude losses in importing, all commodities. Thus, our exchange rate should depend mainly on ourselves, and be based on the principle of favoring strategic export commodities. So-called strategic export commodities should be major export commodities that China can rely on for a long time to come, and not necessarily those that are most exchanged at present. I think that China's strategic export commodities should be processed goods, preferably highly processed ones, and not the primary products that are most exchanged at present. China is known as a big country abounding in natural

resources, but this is only a generalization. Per capita, China is certainly not any stronger than Japan, which has very scarce natural resources. A clear understanding of this issue will be necessary to spur the people to work hard for the prosperity of China, determine to make the economy more rational, improve economic results, and change the export product mix.

10. Prices Must Also Rely on the Legal System

The nation and prices must both be ruled by law. China must not only borrow, introduce, and digest for our own use certain effective foreign price-management and consumer-protection decrees, such as laws to ban monopolies and profiteering, but we must also formulate certain special decrees in line with our national conditions, such as laws that state-owned industrial and commercial enterprises must implement national price policies, control market prices, and protect the interests of producers and consumers. A perfect price law should not necessarily be formulated at once but, at different times and based on different needs, certain special regulations should be formulated and, after gradual development, be compiled as our "Price Law."

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PRICE REFORM UNDERLIES ECONOMIC REFORM

Shanghai SHIJIE JINGJI DAOBAO in Chinese 2 Mar 87 p 13

[Article by Dai Yuanchen [2071 0954 2525]: "The Unavoidable Issue of Price Reform; If Rapid Economic Growth Is Still Stressed, the Traditional Methods of High Accumulation and Investment Demand Expansion Are Still Used, and Currency Issue Is Increased To Stimulate General Demand, the Resulting Price Rises Will Not Belong to the Category of Price Reform Carried out To Put Distorted Prices in Order; and Saying That Price Changes That Occur Due to Inflation Are Due to Price Reform, Will Discredit the Name of Price Reform"]

[Text] If Distorted Prices Are Not Put in Order, the Role of the Market Mechanism Will Be Limited

The grounds for favoring the avoidance of price reform are simply that the price issue is too involved and too difficult. It is often held that economic reform failures are due to price reform failures, while economic reform successes are often not attributed to price reform. Thus, favoring "avoidance" is apparently very alluring.

But there is no way to avoid the issue of price reform. Since the Polish economist Oskar Lange proposed his "Lange Model" "Trial and Error Price Reform Method" in the 1930's, all those who discuss economic reform in socialist countries have regarded price reform as a major link of economic reform. This is because all methods, whether the "Trial and Error Price Reform Method" or others, are signs of various degrees of change in the price formation mechanism and, thus, in the economic motion mechanism. It is hard to imagine the possibility of gearing production to market demands and developing competition between enterprises--where the best wins and the worst loses--in other ways, as long as the price-formation and economic-motion mechanisms remain the same. Putting prices in order, and enabling the market mechanism to play its normal role, are issues that economic reform must definitely come to grips with. Since the theory of economic reform in socialist countries is based on requiring the socialist economy to use the market mechanism, all views favoring the avoidance of price reform will inevitably land in the theoretical predicament of being self-contradictory.

Only by Stopping Inflation Due to Demand Can the Resistance to Putting Prices in Order Be Reduced

So-called price distortions refer to irrational price relations among various kinds of commodities, and price reform refers to structural price reform. The prices of products that are in short supply, have low prices, make small profits, or even lose money, must obviously be raised, and the prices of those that are plentiful, have high prices, make large profits, and are competitive, must indeed be lowered. In theory, price reform itself should not cause increases in general price levels. In China, most low-priced, small-profit products are agricultural and mineral products. Their prices are basic, and raising them would cause a chain reaction of rising prices. But most high-priced products are end products, and lowering their prices would not cause a chain reaction of falling prices. Thus carrying out structural price reform would cause increases in general price levels, but these resulting price rises would be limited.

However, large increases in the prices of some commodities have indeed occurred in the course of economic reform in certain socialist countries, thus causing economic disorder and social disturbances. This explains why people are apprehensive about, and even attribute economic reform failures to, price reform. But in fact, these general price rises were indeed not the result of price reform, but were caused instead by inflation due to demand. Only by clearly differentiating these two things will it be possible to find the true root of the problem.

A process will have to occur, and a period of time will have to elapse, between the beginning of reform and the realization of a mechanism changeover. In this process, it will be necessary to control the rate of economic growth in order to create a good environment for reform. If rapid economic growth is still stressed, the traditional methods of high accumulation and expansion of investment demand are still used, and currency issue is increased to stimulate general demand, inflation due to demand will certainly result, and the resulting price rises will basically not belong to the category of price reform carried out to put distorted prices in order. Saying that price changes that occur due to inflation are due to price reform will discredit the name of price reform. Therefore, it is reasonable to say that the wish to avoid price reform is caused literally by economic reform failures created by inflation due to demand. This should spur people to be very cautious about expanding general demand, and to refrain by all means from pursuing the self-contradictory dual goal of demanding both reform and rapid economic growth.

Only by overcoming the obstruction of inflation can steps to put prices in order be truly initiated. Otherwise, there will always be "continuous efforts, but never a complete solution."

Particular Attention Must Now Be Paid to Inflation Caused by Adjustment of the Exchange Rate

Inflation occurs in socialist countries both when general demand is too great and there is too much currency in circulation, and also when the exchange rate is adjusted and the currency is devalued. China must now pay particular attention to the latter situation.

In international currency circulation in the past few years, the exchange value of the U.S. dollar has fallen in relation to such currencies as the yen, the franc, and the mark, and the U.S. dollar has been devalued. But the exchange value of the RMB is still continuing to fall in relation to the devalued U.S. dollar. In 1981, \$1 was equal to only 1.5 RMB, but by 1986, it was equal to 3.72 RMB, and the RMB had depreciated 148 percent. The real intention in adjusting the exchange rate was to improve the competitiveness of China's goods in foreign markets and spur the export of commodities through devaluing the RMB. But due to China's monopolistic management of foreign trade, commodity producers have been isolated from international markets. Many of them do not know either what price their goods can actually bring on foreign markets, or the real reason for their lack of competitiveness, and can only organize their production according to the demands of foreign trade departments. Adjusting the exchange rate in this way indeed cannot truly spur and improve their competitiveness.

Moreover, the prices of imported goods, goods assembled from components imported in bulk, and those produced from imported raw and processed materials, have risen along with adjustment of the exchange rate. The competition to buy export goods has also raised their prices and, thus, inflation caused by adjustment of the exchange rate has occurred. But these price rises were not caused by price reform. There are now still some who favor still further adjustment of the exchange rate and still further devaluation of the RMB. Thus, even if price reform were not carried out, prices would still rise further.

The issue of price reform is unavoidable, and distorted prices will have to be put in order. But inflation caused by either demand, or by adjustment of the exchange rate, will be intolerable. Those who favor avoidance of price reform will be absolutely correct in opposing these two things.

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ENTERPRISE-LIKE OPERATION SUGGESTED FOR SPECIALIZED BANKS

Chengdu CAIJING KEXUE [FINANCE AND ECONOMICS] in Chinese No 1, 25 Jan 87
pp 63-65

[Article in the Financial Structural Reform Studies Column by Wang Dashu [3769 1129 2885] and Wang Guangqian [3769 1684 6197] of the State Council's Economic Research Center: "Socialist Market Economy and the Enterprise-Like Operation of Specialized Banks"]

[Text] In order to establish a distinctive socialist economic system in China we must accomplish three tasks: invigorate the enterprises, perfect the market system, and establish a healthy system of indirect controls. These three aspects of the economy form a closely integrated organic whole. The function of the banks in the national economy is why it plays an important role in the restructuring of the economic system. In order to invigorate the enterprises, implement indirect controls and more importantly, further develop the socialist commodity market and perfect the market system, the transformation of the specialized bank into an entity that operates like an enterprise is imperative.

Invigorating the enterprises is a central focus in the restructuring of the economic system and is also the primary function of the banks. The existence of markets requires that enterprises act as relatively independent businesses and producers of goods, and compete. Before industrial and commercial enterprises can operate independently and take responsibility for their own profits and losses, the specialized banks themselves must function more like enterprises. Nowadays the industrial and commercial enterprises are more autonomous but the banks with which they have an intimate working relationship are still operating under the planned credit system and do not have the right of self-determination. This badly handicaps the operations of the banks and in turn diminishes the autonomy of the industrial and commercial enterprises. Only by operating as enterprises can specialized banks accommodate the credit needs of the developing commodity economy. If we make rapid progress in getting the banks to operate like enterprises, change their irresponsible lending practices and exercise more restraint on funds use we can accelerate the capital turnover rate and improve the economic returns of the industrial and commercial enterprises. Furthermore, specialized banks are economic entities too, they are financial enterprises dealing with money and credits. Efforts to invigorate the enterprises must be extended to include the banks. County subbranches

and district offices in the large cities should be treated as large and mid-sized enterprises; they should have independent control over personnel, property, resources, loans, deposits, and remittances.

In order to further develop the socialist planned commodity market and improve the market system, the state should no longer control the national economy directly, but instead adopt economic and legal measures which may be supplemented by administrative measures where necessary. Indirect control of the national economy by the state is often accomplished through the banking system (the central bank and specialized banks). The central bank sets the ratio of reserve requirement, controls the volume of refinancing, adjusts the interest rate, and uses other means to control credit. These measures, however, affect enterprises only directly via the specialized banks, and if the specialized banks are stagnant, the state's indirect control measures will have little effect. Only by turning the specialized banks into bona fide financial enterprises that are responsible, authoritative, and profitable can they provide the sound microeconomic basis for the central bank to carry out macroeconomic adjustments, and relay the central bank's control measures to the industrial and commercial enterprises promptly and effectively.

The socialist unified market consists of a market for consumer goods, a market for producer goods and raw materials, a financial market, technology market and labor market. Accompanying the development of the commodity market, the role of the financial market has become more prominent within the market system. The financial market provides the physical means to circulate capital funds laterally, and in a sense, it is the "market" for all markets because, whether it is the circulation of consumer goods or producer goods, or the circulation of technology or labor, all activities involve a corresponding circulation of money and capital; all activities are coordinated through the financial market. Therefore, without a lively and energetic financial market, the other markets will be seriously handicapped; they can neither grow nor prosper. Therefore the establishment of a financial market is essential to the establishment and perfection of the socialist market system.

The financial market consists of a money market, long-term capital market, market for eligible papers, market for stocks and bonds, foreign exchange market, and market for precious metals (gold, platinum, and silver). The operation of specialized banks in the manner of enterprises will significantly affect the opening, establishment, and perfection of the financial market.

1. The short-term money market (including interbank short-term lending and borrowing, and regular loan markets). Interbank lending and borrowing is not popular in China. Banks do not operate like enterprises and since they are not responsible for profits or losses, they are not concerned with the effective use of money. In addition, because they practice division of labor under an integrated system, some banks remain passive in attracting deposits and others stubbornly refuse to lend out money. This makes it difficult to calculate the actual amount of funds available. Banks in capitalist countries calculate cash flow and engage in short-term lending and borrowing everyday; here we do those things once in a while. This is because we treat banks as administrative organs. The specialized banks are not rewarded for

their achievements; they are not interested in short-term lending and borrowing activities; primary level banks have little autonomy; fund transfers are met with administrative interventions at every step, making it difficult if not impossible to attempt any kind of short-term lending and borrowing. To stimulate the short-term loan market the financial enterprises must be given authority to borrow and lend on a short-term basis. The specialized banks should take part in these activities on the basis of self-interest and mutual benefit. The loan period and interest rates may be negotiated between the parties. By so doing we can remove the rigidities and obstacles, and take advantage of the fact that there is a time-lag [in the circulation of money], and that different regions and industries do not have the same need for cash. We can make the most of the available money instead of letting it go to waste because of rigid allocations.

In the regular loan market where banks extend loans to industrial and commercial enterprises, specialized banks must also operate like enterprises in order to stimulate the market. Where there is a market there should be competition. At present, banks are set up according to administrative districts, and enterprises within a district have no choice but to deal only with a particular bank. The specialized banks can invigorate the whole financial market if they become more energetic, and in particular, if insurance companies and investment and trust companies are allowed to extend loans independently, thus breaking the banks' monopoly in this area, and generating even more competition in the financial market.

2. Long-term capital markets: In the past most capital construction and transformation investments were mandated from above. The banks were just formalities with no real power. This situation must be changed if we are to turn the specialized banks into responsible and profitable financial entities with real authority and transform the Construction Bank into an operation which resembles that of the World Bank. To open a long-term capital market we must first emphasize putting the fund-gathering activities onto the right track, and curtail aimless and sporadic fund-gathering activities. We should promptly enact rules to regulate stocks and bonds, set up specialized financial institutions to underwrite stock and bond issues for reputable enterprises or enterprise groups, open up more channels to raise construction funds, and make stock and bond issues the standard means of raising funds. Long-term negotiable securities may be transferred and traded in the market.

3. Market for eligible papers. Traditionally China has always adopted only one form of credit--bank credit--and does not allow other forms of commercial credit. Therefore, there has never been a market for eligible papers to speak of. Recent reforms have lifted many restrictions, and commercial credits have flourished along with developments in commodity circulation. Our financial system, however, is not helping the development of commercial credits, let alone accepting them into the mainstreams as a form of credit. The reason behind this is the failure of the specialized banks to operate as enterprises and link rewards to performance. They have no money, no means, and no interest to launch new businesses. If we want to open a bill discounting market, we must enliven the banks and get them interested in offering discounting, collateral loans, and other services. In order to establish the use of eligible paper in commercial lending, and establish a market for these instruments, their discount rate

should initially be lower than the interest rate on loans. In addition to commercial paper, banks should also vigorously promote bank notes. All transactions between financial institutions, between banks and enterprises, and among enterprises should be primarily based on these debt instruments. After the specialized banks become more active and offer comprehensive discounting services, the central bank should begin rediscounting service, and gradually reduce direct loans to enterprises, eventually letting discounting, rediscounting, and collateral loans serve as the main forms of loan transaction. At the same time we should experiment and open up a secondary market, and promote the transfer, trade, and circulation of these instruments to form a market.

4. Stocks and bonds market. As we restructure the economic system, stock ownership will become more prevalent in the socialist economy. At present our experimental stocks and bonds are non-negotiable; they do not fit the true meaning of stocks and bonds, and there is no market to speak of. If the specialized banks behave more like enterprises and strive to expand financial services, this would facilitate the formation and development of the stock and bond markets. The banks can standardize stocks and bonds, set up firms to rate the enterprises, and underwrite security issues. The various pilot cities may experimentally buy and sell securities and prepare for the opening of new markets gradually.

5. Foreign exchange market. Similarly, the specialized banks can only compete in international financial markets if they operate more in the manner of enterprises.

We thus can see how specialized banks can affect the establishment and perfection of the financial market if they were to become more like enterprises. But how do we make specialized banks behave like enterprises?

1. End the system of "eating out of the big pot." We should change the system of unified accounting where profits are turned over to the home office but expenses are budgeted at each level. Instead, county subbranches and district offices in large cities should become independent accounting units taking responsibility for their own profits and losses; their funds and benefits are to be linked to performance.

2. We should allow primary level banks to become more independent. As basic accounting units they should have authority in the following areas.

a. Within the scope of the state's credit plan, they should be allowed to decide loan operations and strategies for themselves. Banks with more deposits should extend more loans; those with more income should be allowed to spend more.

b. Within the flexible range of interest rates set by the central bank, specialized banks should determine their own short-term interbank loan rates and set their own interest rates on loans and deposits based on market conditions.

- c. Based on business conditions, they may decide for themselves where to open new offices and add facilities to attract more customers, as well as determine specific types of services they wish to add.
- d. They may compete in the financial market as relatively independent operators in the money and credit business. They may engage in inter-bank short-term lending and borrowing, grant credits, discount loans, and extend collateral loans and other financial services.
- e. They may implement an employee wage system and independently hire, evaluate, promote, and dismiss employees.
- f. The president of the bank, who is nominated democratically and appointed by higher authorities, may set up cabinets in which he will share responsibilities along with the chief economist and the chief auditor.
3. The goal of the specialized bank is to make money. Banks should treat all loan applicants equally. This principle should extend to loan discounting. Therefore, the party seeking the discounted loan pays the interest on the loan.
4. Specialized banks should integrate responsibility, authority, and profits. They should establish economic responsibility systems which specify the tenure, goals, and responsibilities of the bank president, and upon leaving the job, he would be audited and his loan practices reviewed. The bank president must be given authority, privileges, and responsibilities. Bad debts must be investigated and responsibility determined. Bank presidents and credit officers should be thoroughly audited before they are transferred.
5. Banks need to straighten out certain financial policy issues. Like the industrial and commercial enterprises, primary level banks should adopt a system of profits for taxes and the requirement that profits be turned over to higher levels should be abolished. Banks should enact accounting rules to define costs and allow educational funds and funds for automation to be classified as expenses. The basic accounting units pay business tax and income tax to local authorities but are exempt from the "adjustment" tax. Part of the after-tax profits should be set aside as bank credit funds and allowance for bad debts; the remaining can be divided proportionally into a bank development fund, workers' benefit fund, and bonuses and awards.
6. We must properly handle relations between specialized banks and the central bank and between primary level banks and higher level banks. The central bank is the financial manager; the specialized banks are the financial enterprises and their relationship should emphasize the separation of government and business. In macroeconomic matters the central bank makes all the financial decisions, but it should not rely on credit plans to control the volume of loans. Instead they should adopt economic and legal measures to regulate the money supply and the volume of loans. The central bank can adjust reserve requirement ratios, the interest rate of refinancing, the rediscount rate, and

flexible interest rates. It can buy and sell eligible papers and bonds; it can enact financial rules and regulations; it can also advise and guide. The specialized banks should have autonomy over actual loans, deposits, and remittance to reduce and avoid administrative interference. The relationship between higher level banks and lower level banks is similar to that between a banker and client. The higher level bank may also act as a business consultant to the lower level bank.

In short, only by implementing reforms in the above areas and invigorating the specialized banks can we hope to establish and perfect the financial market and the socialist unified market system.

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ILLEGAL EXPORT OF COMMODITIES TO HONG KONG STOPPED

Beijing GUOJI SHANGBAO in Chinese 10 Mar 87 p 1

[Article by Wang Yixia [3769 0181 1115]: "China's Illegal Export of Certain Staple Commodities to Hong Kong Has Basically Been Stopped"]

[Text] Since China began to add licensing in addition to quotas in its export of major commodities to Hong Kong in February 1985, conditions have improved immensely. The illegal export of certain staple commodities has been basically stopped or controlled to a certain extent, ways of exporting have gradually returned to normal, sales of some commodities have increased, and a bigger share of the market has been captured. Moreover, the prices of some commodities have risen somewhat. I learned this at the first working conference on coordinated management of export commodities which was sponsored by the Ministry of Foreign Economic Relations and Trade.

Judged by several major kinds of commodities, China's food markets have recovered quickly, with sales of most commodities having regained or surpassed their 1984 levels. This can be seen in the following principal areas. Live-stock and poultry sales have generally picked up again, with 10 breeds having surpassed their 1984 sales volumes. Sales of hogs to Hong Kong reached 2,444,000 head in 1986. This was an increase of 7.2 percent over 1985 and accounted for 95.08 percent of the market. Sales of frozen pork rose 27,000 tons over 1985, increasing the receipt of foreign exchange \$39.65 million. Sales of eggs, salted eggs, and preserved eggs all topped 1984 levels, with that of eggs reaching an all-time high. In addition, sales of aquatic products, marine products, and fruit also rose considerably. Sales of large canal crabs increased 46 percent in 1986 over 1985, changing the situation in which prices had to be lowered for 2 consecutive years. Management improvements raised the confidence of Hong Kong and Macao customers, the sales network was expanded somewhat and, by the end of 1986, about 95 percent of Hong Kong and Kowloon meat markets, or a clear increase over 1985, were buying their meat from China.

There have been major changes in the textile market, with China's 1986 exports to Hong Kong increasing 31.6 percent over 1985 and far surpassing 1984's all-time high. Since quota licenses were issued, the declining trend in exports of "double-yarn and double-cloth" has clearly been reversed.

Since China began to issue quota licenses for 13 handicrafts in 1985, illegal exports have been controlled. Since coordinated license management was exercised over 14 key light textile products, exports of these commodities have also generally returned to normal. For instance, exports of work gloves from January to October 1986 rose 97.6 percent over the same period in 1985.

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TRADE IMPACT OF APPRECIATED YEN, COUNTERMEASURES

Shanghai CAIJING YANJIU [THE STUDY OF FINANCE AND ECONOMICS] in Chinese
3 Mar 87 pp 34-49

[Article by Xu Xinli [6070 1800 4409]: "The Impact of the Appreciated Yen on Sino-Japanese Trade, and Chinese Countermeasures"]

[Text] I. Appreciation of the Yen and Its Background

The Japanese yen rose rapidly and forcefully between September of last year and mid-January this year, its exchange rate against the dollar rising from 240 yen to 153 yen to the dollar, a 36 percent rise. This appreciation is a profound reflection of the trend towards internationalization of the Japanese economy and represents an attack on the present international economic order. The struggle between Japan and the United States, as well as other countries, as they vie for the world market and investment opportunities is becoming more intense; this will necessarily bring about new divisions in the international market, thereby creating new divisions of labor in the Western Pacific region.

The appreciation of the yen is not accidental, but has a well-established background. Although the yen appreciated twice, in 1971 and 1978, the rise was modest, and the exchange rate against the dollar remained quite low, with Japan's favorable trade balance increasing rather than decreasing. According to statistics in the economic white paper of Japan's Office of Economic Planning, Japan's favorable trade balance rose from \$377 million in 1964 to \$55,986,000,000 in 1985. From 1964 to 1985 this favorable trade balance increased 150-fold, with exports increasing 26-fold and imports 19-fold (quoted from data published by Masanori Ito, consultant to the Nomura Securities Corp.). Japan has now become the world's foremost creditor and largest overseas investor. At the end of 1985, Japan's net overseas investments broke through the \$100 billion mark, overtaking Great Britain for first place. According to an estimate by the Nomura Coordinated Research Institute, "By 1995 Japan's net overseas investment will reach \$558 billion" (ASAHI SHIMBUN, 28 May 1985).

Japan's economic might has grown rapidly, while that of the United States has undergone a relative decline. According to statistics from the U.S. Federal Reserve Bank, as of 1985 the United States' net foreign debt surpassed \$100 billion; if the policy of high interest and exchange rates continues to be implemented, the trade deficit will increase rather than decrease, and by 1986 the net foreign debt will total \$245 billion; by 1988, \$571 billion; and by 1990, \$974 billion, making the U.S. the world's foremost debtor nation. Japan

has been able to achieve this great favorable trade balance by relying, first, on its closed and exclusive domestic market which foreign goods penetrate only with difficulty; and, second, on a series of foreign-trade policies and low exchange rates, and great economic vigor due to price and nonprice competition. In 1985 Japan's exports reached \$182.6 billion, a 7.7 percent increase over the previous year; its trade balances with the United States, Western Europe, China, and the newly industrialized nations were all favorable, with its trade balance against the U.S. setting a record at \$4,334,800,000. In order to get out of its difficulties and reduce its trade deficit with Japan, James Baker, after taking over as Secretary of the Treasury, and with the support of President Reagan, began by tackling external conditions, joining with Western Europe in forcing up the yen. On 22 September last year, the finance ministers and central bank presidents of the U.S., Great Britain, France, West Germany, and Japan held a conference in New York. Under American pressure, and taking into account each country's interests, it was agreed to intervene jointly in the exchange market. After the conference, the five countries sold off more than \$4 billion; Japan's intervention accounted for more than half of this. Japan appeared enthusiastic, its purpose being to appease the U.S. and avoid setting off increased protectionism in the U.S. against Japanese imports. The appreciation of the yen was, hence, a forced retreat, with no alternatives. At the meeting of seven finance ministers in late September, Treasury Secretary Baker called on Japan to lower its exchange rate and further increase domestic demand, threatening that if the U.S. trade deficit were not reduced the dollar would have to continue to be devalued. Japan joined West Germany in a tit-for-tat battle with the U.S., firmly refusing to further lower their interest rates. On 16 October, Sumita Satoshi, president of Japan's central bank, once again reiterated that Japan's discount rate had already been lowered three times that year, that it was then only 3.5 percent, the lowest since the War, and that it would not be lowered further. In order to stabilize the dollar's price, however, Japan was willing to join West Germany in intervening in the exchange market. It is forecast that in the near future the yen will be hard against the dollar, tending to stabilize, and hovering around 150 yen to the dollar. This is the international background to the yen's current appreciation.

II. The Yen's Appreciation, and China's Countermeasures

A. Growth in Sino-Japanese Trade and Reasons for Its Imbalance

Japan is both China's neighbor and her largest trading partner. Total trade with Japan in 1985 accounted for 27 percent of China's total foreign trade, and 6.2 percent of Japan's total foreign trade, second only to Japan's trade with the U.S. In recent years, however, China's trade deficit with Japan has increased steadily; between 1972 and 1985, total Sino-Japanese trade was \$99.67 billion; of this, \$55.77 billion was exports to China, and \$40.77 billion was imports from China, giving China a trade deficit of \$15 billion, of which the 1984 deficit was \$2 billion, increasing to \$6 billion in 1985; it is estimated that this deficit will still be \$4 billion in 1986. This imbalance in Sino-Japanese trade has already had a severe impact on the normal development of that trade. The main reasons behind China's trade deficit with Japan are: 1) Goods are in short supply in China's domestic market, making it difficult to find a suitable source of goods; in quality and design, goods are

unable to keep up with trends in demand. Since market prices for certain means of production were decontrolled, in particular, domestic prices have risen, so that the purchase prices of foreign goods are unable to keep up with the regulated prices for raw materials, causing some export commodities to suffer severe losses and affecting the enthusiasm of enterprises for developing goods for export. 2) The crux of the matter is that the mix of import and export commodities is unfavorable to China. In 1985, for example, China's exports to Japan were mainly primary products; crude oil and finished petroleum products accounted for 43.1 percent, grain and foodstuffs accounted for 15.6 percent, textile and metal raw materials accounted for 8.2 percent, and textiles for 27 percent. In recent years prices for primary products have slipped greatly; taking 1980 as 100, on 31 December 1985 prices had fallen to 79.5, with the price of oil falling by more than 50 percent. 3) Prices for industrial goods imported by China from Japan have fallen only slightly; in particular, macrocontrol was lost over household appliances, automobiles, and assembly lines imported from Japan, causing a huge increase in imports. In addition, Japan's tariff and nontariff barriers against China have also restricted the growth of China's exports to Japan. For a certain type of carpet, for example, Japan's tariff on imports from the U.S. is 4 percent, while it is 9.6 percent on imports from China. Duties are high on 16 native products and other traditional goods exported by China to Japan, and five more are subject to quota restrictions. These discriminatory measures are difficult to condone. The Sino-Japanese trade balance in recent years is shown in the following table.

Sino-Japanese Trade Balance, 1981-1985 (Unit: \$1 Million)

Year	China's Exports		China's Imports		Trade Figure Amount
	Amount	% Increase	Amount	% Increase	
1981	5,291.81	22.4	5,095.45	0.3	196.36
1982	5,352.42	1.1	3,510.83	-31.3	1,841.59
1983	5,087.36	-5.0	4,912.33	39.9	175.02
1984	5,956.61	17.1	7,216.24	46.9	-1,259.63
1985	6,482.99	8.8	12,477.21	72.9	-5,994.22
TOTAL	28,171.19	-	33,212.06	-	5,040.88

Source: "Foreign Trade Survey," Finance Ministry.

Note: The rate of increase is that over the previous year. The 1984 figure for China's trade deficit is smaller than that shown in Chinese statistics; this is because Japan includes goods transiting through Hong Kong to China in its export figure.

The yen's appreciation represents an opportunity for China, as well as a challenge (the fight over markets and investment opportunities is now more fierce); China needs to take appropriate countermeasures.

B. Improving the Investment Climate, Attracting Japanese Investment and Parts Processing and Production to China

Simultaneous with this sharp increase in Japan's exports to China, its direct investment in and technology transfers to China have stagnated. As of October last year, there were more than 7,000 foreign firms investing in enterprises in China. As of April 1985, there were only 57 Sino-Japanese joint ventures, accounting for only 6.1 percent of all Sino-foreign joint ventures. In terms of technology transfers, several American multinational manufacturing corporations have come to China; IBM, for example, has now established IBM China to manufacture computers; West Germany is producing Volkswagen automobiles in Shanghai; Britain and France have provided China with nuclear power plant equipment. Japan, however, is still going around and around in tertiary industry and has invested very little in technology transfers. The Japanese have not come to invest in China out of concern over the following:

1. Once a technology, particularly a key technology, has been exported to China, it is used and developed in China, so that Japan may lose its China market for products produced by that technology.

2. Commodities produced by the range of technology exported to China may lead to competition overseas or even be resold back to Japan, affecting domestic competitiveness.

At the same time, some people in Japanese financial circles doubt the stability and continuity of Chinese policies; Chinese legislation regarding foreign investment is incomplete, and the time limit set for joint ventures is rather short.

Recently Professor Umaba Masao, a member of the Japanese government's Consultative Committee and director of the Research Institute of the Economic Planning Office, stated, "China's enterprises lack autonomy," making it difficult to exploit the entrepreneurial spirit. In particular, Japanese enterprises are concerned that China still has many internal regulations governing investment. In December last year, Aramura Tamoko, a research fellow at the Japan Coordinated Research and Development Institute, conducted a survey of Japanese enterprises involved in economic cooperation with China. At the conference on "Development of the Asia-Pacific Region and Sino-Japanese Relations in the Twenty-first Century" held in Maanshan, China, in June 1986, Aramura said, "The doubts of Japanese enterprises as to whether the Chinese political system is stable have basically been eliminated; however, China's requirements that joint ventures achieve a foreign-exchange balance are excessively stringent, and this represents an investment bottleneck. Even though China has a cheap labor force and abundant resources, these advantages are difficult to exploit because of China's limits on free hiring, and her poor transport conditions and infrastructure." To summarize the above analysis in one sentence, China's investment climate is not very good. These problems are gradually being solved, however, and investment in China will continue to increase in future.

Recently China promulgated 22 new measures to promote the use of foreign capital, and Shanghai and other areas have also promulgated several regulations aimed at encouraging foreign investors in order to make those measures more concrete. The foreign investment climate is continuing to be improved in all areas, with investment conditions being relaxed. Improvements

in the investment climate are, however, relative. In terms of infrastructure and legislation affecting foreign business, there is a gradual process of improvement; no country waits until everything is in place before taking in foreign investment but rather takes in investment while improving its conditions. With an increase in foreign investment, infrastructure can be improved more quickly, and legislation can also continue to be rounded out. In terms of Japan's economic strategy towards China, the ever-expanding Chinese market and the cheap and stable supply of resources are the greatest attractions; establishing a close economic relationship with China and an effective international division of labor will bring Japan even greater profits. Therefore, the time is ripe for Japan to help China modernize, with Japan's technology continuing to stay ahead of China's. However, Japan is also concerned that the pace of American and West European investment is staying ahead of Japan's, and so investment climate is closely related to competition. A report by the Mitsubishi Research Institute states: "American and West European firms will now push boldly ahead throughout China, which will necessarily compel Japanese firms to accelerate the pace of their investment in China." Hence, our increasing cooperation with Europe and America will put pressure on Japanese firms.

The Southeast Asian countries have now relaxed their policies to attract Japanese investment. Japan also has more than 700 small and medium-size firms that are testing the investment waters in China through various channels, and they are becoming more flexible in transferring technology to China. We should seize this opportunity and give careful consideration to projects involving Japanese investment and technology through the country and in Shanghai and other open cities. Older ports like Shanghai should focus on upgrading products and exporting to generate exchange, doing feasibility studies in such basic industries as machinery and electronics so that they can process parts for Japanese enterprises. Parts processing makes it possible to introduce their technology and promotes their investing in China. For example, Japanese auto workers originally earned \$9.50 an hour, less than American auto workers at \$11 an hour, but now the hourly wage has surpassed that in the U.S. Japan is interested in cooperative production with the Chinese auto industry. China has more than 2,400 auto parts plants, with 480,000 staff and workers; 117 of these plants are under the Shanghai Joint Automobile and Tractor Industrial Corporation, and 80 percent of these are parts plants. They have a good foundation and complete standards, and about a dozen of them produce exports. Parts processing can go from the simple to the complex, from universal parts to special parts, so as to expand processing according to imported patterns and designs. China imports many automobiles from Japan each year; at the time of import, it could be specified that the other side must purchase a certain percentage of Chinese parts, so that imports are accompanied by exports and reciprocal trade is developed. When auto part technology is introduced from Japan, the contract could stipulate a certain resale percentage, so as to generate exports through imports. It would be even more advantageous if China and Japan could cooperate in running auto part export enterprises; moreover, it would save a great deal of foreign exchange used each year to import parts from Japan needed for auto maintenance.

China can cooperate with Japan not only in the area of auto parts production but can also seek out other paths of cooperation. For example, Matsushita,

Sanyo, Mitsubishi and others have parts produced abroad; China has already brought in more than 100 color TV assembly lines, but there is a severe lack of component production, and many production lines have suspended production. If China could win over parts production for the Japanese appliance industry, this would not only increase foreign-exchange income but would also gradually bring idle domestic production capacity into play, alleviating the shortage of color televisions in China. As another example, Japan also intends to make use of enterprises in Malaysia and Singapore to produce and supply for export 256K dynamic RAMs. The Mabuchi Co. is the world's largest producer of micromagnetic motors; its overseas production now accounts for 99 percent of its total output. Hence there is great potential for winning over parts production as Japanese enterprises shift their production abroad. Other projects involving the three forms of import processing, and compensation trade, should be further developed on the previously existing foundation, as such projects involve low investment and fast results; contracts for such projects are also easy to work out. This also avoids difficulties with small and medium-size Japanese firms and corresponds to the desire to expand abroad.

C. Adjusting Industrial Structure, Seizing Opportunities, and Expanding Exports to Japan

1. Adjusting the industrial structure is the key to expanding exports to Japan.

Following the yen's appreciation, exports to Japan by the four minor Asian economic powers increased quickly. The key to their being able to export quickly to Japan after the yen's appreciation lies in their adaptation to the tide of the world's new technological revolution; by adjusting their export-oriented industrial structure, the pillars of which were electronics, machinery, and automobiles, and adding their rapid informational capabilities and complete financial institutions, they were able to react quickly to the yen's appreciation. The reason China has reacted slowly and has not significantly developed exports to Japan is that the Chinese industrial structure is still closed, and is incapable of adapting to international trends. Adjustment of the industrial structure requires seeking truth from the facts and gradual improvement; there must also be a bold spirit and a concept of international competition, integrating short- and long-term interests. Premier Zhao Ziyang recently pointed out, "China's coastal areas, and especially the open cities and zones, should focus on developing an export-oriented economy; every effort should be made to 'lighten' the industrial structure somewhat, placing more emphasis on textiles and light industry to produce export goods. Light industry and textiles, shouldering the export burden, should shift over from their past emphasis on quantity towards improving quality and grade" (RENMIN RIBAO, 12 September 1986). We are now exploiting as best we can our advantages in textiles and light industry and are increasing exports to Japan of traditional products, mainly textiles. Because Japan's textile industry went from a profit-maker to a loser following the yen's appreciation, many products were shifted to production in developing countries, or have been imported. We should seize this lull and this opportunity and hurry to get in on it. Shanghai is an important base for exporting textiles to Japan. In 1985 Shanghai's exports of textiles, silks, clothing, and knitwear to Japan reached \$160 million, accounting for 44

percent of Shanghai's total exports to Japan. A great potential remains; the key lies in diversifying product patterns and designs.

In the near term, China's traditional products will continue to account for most exports to Japan; in the long term, however, China's electromechanical products have a potential advantage. At present, annual exports of electromechanical products account for only 9 percent of all exports, and medium- and low-grade goods predominate; very few of these products are exported to Japan. Production of electromechanical goods is quite well established in Shanghai, for example, with more than 10,000 different products, but only some 100 products are suitable for export, and only eight of these involve exports in excess of \$10 million. The potential for export is considerable, but many problems remain. The most salient conflict at present is the high cost of exchange: the prices of some machine tools are 20 to 30 percent higher than their Taiwanese and South Korean counterparts. Low profits from sales abroad are also a stumbling block to developing export trade. For example, the foreign-trade purchase price of the HG-28 machine tool is more than 6,000 yuan each; its self-marketing price is over 8,000 yuan, and the decontrolled price is over 10,000 yuan. As another example, the Yuejin Electrical Machinery Plant of Shanghai earns a 26.8 percent profit on domestic sales, but only 4 percent on foreign sales. Each year the Shanghai Micro-Bearings Plant exports a million bearings, meaning it retains 66,700 yuan less in profits, and hence its exports are declining year after year; exports as a percentage of its total output declined from 65 percent in 1982 to 25 percent in 1984. Therefore, at the same time as the grades of electromechanical products are adjusted, quality is improved, and exports increased, prices must be gradually adjusted to make foreign sales as profitable as domestic sales.

2. Several things must be done to expand exports to Japan:

a. Implement policies to encourage exporting enterprises.

Technological upgrading must be accelerated in the textile industry, which holds the preeminent export position in China, and in the potentially advantageous electromechanical industry. An "accelerated depreciation law," commonly used in other countries, could be implemented, and the system of subsidizing key enterprises could be reformed. In the early 1950's, Japan allowed 50 percent depreciation in the first year on machinery and equipment in major industries; certain experimental equipment could be depreciated 100 percent in three years. From 1961 to 1972, a system was implemented which increased depreciation on equipment according to the percentage exported, so as to stimulate the development of exporting enterprises. If an enterprise did not have adequate funds, half the costs of importing new equipment would be borne by the government, according to the provisions of the "Law to Promote the Japanese Machinery Industry." Foreign-investment enterprises that export to generate foreign exchange should be given special treatment such as tax exemptions or reductions, land use fees, and accelerated depreciation; the time limit of joint ventures could be suitably extended. As of late November 1985, 67 percent of Shanghai's 92 joint ventures had time limits of less than 15 years; only 7 had more than 20 years, and only one had more than 30 years. From now on, advanced-technology joint ventures could be extended to 50 years or longer. In the past, the central government's policy of allowing foreign

exchange to be retained by local governments, and Shanghai's preferential treatment for those enterprises meeting and exceeding export plans promoted exports. I believe that local retention of foreign exchange can be suitably increased, and more than half of it should be given to the enterprises; in particular, enterprises producing finished export products should be given priority consideration. Appropriate adjustments should be made in other areas, such as the system of customs duties, enterprise personnel authority, tax policy, export preferential policies, price policies, exchange rate policy, and credit and finance policy. The principle should be to favor exports, and these policies should be implemented as quickly as possible.

b. Expand and reinforce the Japan marketing network.

Expanding and reinforcing the foreign marketing network is an important means of expanding exports, but China's foreign marketing network channels are weak, with few outlets. In 1982, for example, the country's 21 provinces, municipalities, and autonomous regions had 4,421 agents and representatives for foreign-trade enterprises, concentrated primarily in the Hong Kong and Macao region, with only 154, or 3.5 percent, in Japan. In future more enterprises with good reputations and broad influence will have to be selected as agents. We must especially exploit the positive role of patriotic overseas Chinese agents to gradually expand coverage. In the early stages of opening up the Japanese market, we must pay close attention to the role of middlemen. When Japan was developing its overseas markets, for example, it gave its foreign middlemen higher commissions and profits than did its competitors; this high-commission approach was Japan's main weapon in developing its overseas markets, and China can learn from this. When we open up the Japanese market, in addition to studying Japanese consumer habits (such as the increasing use of throwaway commodities), consumer psychology, and the pertinent regulations and standards, we must especially study the product marketing systems and technical levels of competitors such as South Korea, Hong Kong, and Singapore, assimilating their essence and designing more innovative products. In order to establish the reputation and expand the influence of China's brand-name products in Japan, we should make use of advertising and not be afraid to spend the money for it. In the long term, as time passes, Japanese consumers may become familiar with Chinese products and feel good about them, thus promoting marketing growth. Shanghai's light industrial goods are said to be well received. Some Japanese companies have taken the name "Shanghai Corp." to solicit customers. They believe that "Shanghai is a world-famous city and an economic crossroads between East and West; in the Japanese eye, Shanghai has an aura of romance." Since the "Shanghai Corp." opened in Tokyo's Ikebukuro district on 26 July last year, its daily turnover has been 6,000 yen; it stays open on holidays. Chinese and Shanghai goods are very well received by Japanese young people and housewives. There are 15 stores like the Shanghai Corp. in Japan that specialize in Chinese general merchandise. They hope the goods that they design and manufacture in Shanghai and that bear the Shanghai trademark will greatly increase their turnover.

c. Developing broad international cooperation, expanding trade with Japan and overseas markets.

One means of developing international economic cooperation is to cooperate with Hong Kong and Macao firms, combining Chinese resources, land, technology, labor, and other advantages with the trade, information, and transshipment of Hong Kong and Macao to produce marketable products for export to Japan. In addition, we also need to cooperate closely with the U.S., Canada, and Western Europe to get Japanese enterprises to invest in China. Furthermore, we can also cooperate with Japanese enterprises for production in Japan or China, especially by offering greater policy preferences and convenience to Chinese export enterprises in which Japanese firms have invested, in such areas as power and energy supply and transport, in which they should receive the same treatment as state-run enterprises or should receive priority. Japan's vast overseas markets have shrunk somewhat since the yen appreciated; Japan has ceded some of its wristwatch, textile, and machinery markets, for example. If possible, China should vigorously seek sources of goods to fill the breach. As another example, in 1975 Japan sold 540 million meters of cotton-polyester cloth abroad; in 1985 this dropped to 284 million meters, and China should strive to take up the slack.

d. Reinforce macrocontrol and establish authoritative bodies for bringing in foreign capital and expanding exports.

According to a report in the 27 October 1986 WORLD ECONOMIC REPORT, "Beginning on 1 January next year, the Soviet Union will turn export authority over to large enterprises; the Soviets also claim that problems with procedures for foreign investment in the Soviet Union will be solved. To this end, the Soviets have established a high commission." This should serve to shake us up. In order to strengthen the use of foreign capital and expand exports, the central government should establish an authoritative body on "utilizing foreign capital and expanding exports." Shanghai and the other open cities could also establish corresponding local bodies or offices of the central authority to reinforce macrocontrol over the utilization of foreign capital, importing technology, and expanding exports; these bodies should also be empowered to solve problems in the areas of utilizing foreign capital, foreign technology, and foreign trade. This includes prohibiting attacks by parallel goods in the export trade, overcoming unchecked, conflicting quoted prices, and resolving discrepancies between domestic and foreign sales, implementing export production, allocating quotas rationally, improving market surveys and research, and implementing preferential policies in taxation and credit. These authoritative bodies should issue uniform plans and policies, so that production, trade, finance, banking, transport, insurance, customs, inspection, and the pertinent administrative departments and business offices are all working towards the same goal, striving to bring in foreign capital and technology and expanding exports, thereby opening up a new front in foreign trade.

13322

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READJUSTMENT OF EXPORT COMMODITY STRUCTURE URGED

Beijing GUOJI MAOYI WENTI [INTERNATIONAL TRADE JOURNAL] in Chinese No 1, Jan 87
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[Article by Zhou Dan [0719 0030]: "The Export Commodity Structure and China's Export Industry"]

[Text] The "Recommendations of the Seventh 5-Year Plan" point out that by 1990 the total import export volume should be 40 to 50 percent higher than that of 1985 and, at the same time, it is necessary to actively develop the scope of the utilization of foreign capital and the introduction of advanced technology to attain these goals. "The key point is to increase exports and earn even more foreign exchange." In order to fulfill this plan, China's exports must increase 9.4 percent annually during the Seventh 5-Year Plan. Foreign trade exports play a major role during this 5-year period.

In looking back at the state of foreign trade in 1985, we see that the value of export trade amounted to \$25.8 billion, an increase of 5.7 percent over 1984. The total value of the import trade amounted to \$33.41 billion, an increase of 31.8 percent over 1984. In general terms, although China's imports and exports were more or less balanced during the Sixth 5-Year Plan, the imbalance in the growth rate of imports and exports in 1984 has been a problem, that is, how are we to expand exports in the future?

Premier Zhao Ziyang pointed out: "It is necessary to earnestly study and formulate development strategies and systematic policies for foreign trade exports." Exports are the basis of foreign trade, and expanding exports is the major prerequisite for ensuring the continued stable and coordinated growth of China's economy. By expanding exports and developing foreign trade we can rearrange China's industrial organization, reform the industrial structure, and promote the growth of China's overall national economy. Thus, it is essential that we look into the problem of China's export strategy in the future. An export strategy includes an export-commodity strategy, a market strategy, and a commodity-marketing strategy. This article will primarily deal with problems in China's export strategy concerning the export commodity structure and export industry.

I

The general structure of China's foreign trade export commodities can be analyzed as follows: crude oil and chemical products, 25 percent; agricultural byproducts, 25 percent; light and textile industrial products, 10 percent; and mechanical equipment, 2.5 percent. The proportion of primary products among China's exports is quite large. In 1984, primary products made up 45.6 percent of China's export commodities; light and textile industrial products, 36 percent; and mechanical and electrical products, 11.8 percent. In developed Western countries, however, mechanical equipment comprises 36 to 56 percent and primary industrial products comprise 20 to 23 percent. Confronted with such a situation, we must fully acknowledge China's unfavorable position in the international division of labor and try to expand exports. We must increase the proportion of mechanical and electrical products for export and not persist in expanding exports of mining products, agricultural byproducts, light and textile industrial products, and handicrafts.

The current international situation is such that during the second half of the 1980's growth of the world economy and international trade is slowing down. The cost of energy resources and other primary products has soared, the market is saturated, and competition is fierce. China's major trading partners, the United States, Japan and the EEC countries, have adopted protective measures against light and textile industrial products. They have also set quotas, utilized nontariff barriers, and restricted imports, thereby putting China in a passive position. As for the subjective factors involved, the quality of China's light and textile industrial products is still not very high and our competitive ability is poor so that we occupy an unfavorable position in the international market. At the same time, our deficit is large and this has affected the business initiative of production enterprises. However, if we increase exports of oil and agricultural products to compensate or earn foreign exchange revenue, not only will the growth trend of international market prices be disadvantageous for China, we will forever occupy an unfavorable position in carrying out vertical trade with developed countries. Moreover, there is also the possibility of increasing the contradiction between foreign and domestic sales.

It may be concluded from the preceding analysis that in order to raise the volume of China's exports, to expand foreign trade, and to coordinate China's economic growth, it is essential, in view of both long- and short-term strategies, to actively readjust the foreign trade commodity structure and to reduce the export of energy resources, mining products, agricultural byproducts, and other unprocessed primary products. It is also necessary to further develop, as much as possible, the export of various finished products and mining and agricultural byproducts which have undergone refinement or preliminary processing to increase the proportion of mechanical and electrical products in the export mix since gradually changing and readjusting the export commodity structure are the major prerequisites for expanding exports and increasing foreign exchange earnings.

The reality of the growth of international trade has shown that changes in the export commodity structure are governed by their own principles. The general trend of growth goes through four phases, from the resource-intensive model to the labor-intensive model, to the capital-intensive, and then to the technical-knowledge-intensive model. However, at present the commodities exported by China are still in the first and second phases. The overall level of industrial productivity is low and the product mix and economic structure lag behind. Whether or not a country's industry can be modernized depends on the relative emphasis given to mechanical and electrical products or "high-quality goods" not on the proportion of light and textile industrial products. The major reason the volume of export trade in several industrially developed countries occupies a large proportion of international trade is because of the high quality of the export commodities. Take Japan for instance, in 1982 the foreign exchange earnings from small cars alone amounted to \$24,559,000,000 whereas during the same year the total volume of exports for China amounted to \$21,819,000,000. Japan's foreign exchange earnings were more than 12.56 percent higher than our total value of exports. This not only demonstrates the poor foreign exchange earning capacity of China's exports, it also shows that China occupies an unfavorable position in the international division of labor. In order to rectify this situation, the recommendations of the Seventh 5-Year Plan point out that "as for export commodities, it is necessary to gradually bring about two changes over the long-term. One is to change from primarily exporting raw material primary products to primarily exporting crudely processed manufactured goods to refined manufactured goods."

In order to realize these two changes, we must understand China's current industrial production structure, especially the irrational nature of the export industry structure. We must gradually make adjustments so that China's industrial production is geared to the international market. We must work toward the objectives of expanding exports and increasing foreign exchange earnings so as to promote the coordinated and stable growth of China's economy.

II

China is a developing socialist country. In terms of production we still lag behind. Although we have basically established a completely independent national production system, due to low income levels and the lack of skilled labor, advanced technology and sufficient capital, the level of industrial development and the industrial structure are still in the early stages of industrial growth. Compared with many developed countries, China still occupies a remarkably backward position.

The level of a country's industrial production and its production structure determines its level of consumption and the consumption structure, conversely, the consumption level and structure also affect and condition the production level and structure. Compared with other developed countries, China's industrial production and consumption levels are quite low and the structure backward. This then has ensured that our low production and consumption fail to correspond to the high production and consumption of developed countries. Some people believe that the reason behind the low level of production in

China, the low degree of industrialization, and the serious deficiencies that have arisen in the social aggregate supply is "consumer starvation" caused by overconsumption and consumer precocity. They point to excessive demand. In any case, a sellers market still exists in China. Due to the standard of low production and other factors, many commodities cannot be sold for the asking price or at a high price on the international market, yet in China they sell very well. However, the international market is a very competitive buyers market in which only the fit survive. Only commodities which meet international standards sell and only then will they be welcomed by consumers. This presents a challenge to China's current standards of production. Whether or not we can get a foothold in the international market and whether or not we can break into and capture the international market is related to the matter of whether China's foreign trade export and structure gradually change and exports are gradually expanded.

When looking at the problems in developing industrial production, etc., in China, we should also realize that China is a socialist country that gives priority to a planned economy. Due to unified and integrated economic work we now have some superiority in developing the export industry and in foreign trade. They are as follows:

1. After 30-odd years of construction we have established a complete industrial system and our productive forces operate on many administrative levels. China's industrial resources are quite abundant and this has provided the material conditions and means of production for the diversification of export commodities and strengthening our ability to adapt.
2. In a planned economy it is easier to centralize the utilization of capital and material resources than in capitalist countries. This provides a guarantee for the production and sale of export commodities.
3. We have a vast market of 1 billion people which is advantageous to introducing and withdrawing products. It is also an advantage in guarding against invasions by various other markets.
4. China has an ample labor force which can provide manpower for any export industry and promote the renovation and expansion of the export industry.

In order to change the export commodity structure in China it is necessary to begin with altering the export industry structure. More specifically, we must stress beginning with raising the proportion of mechanical and electrical exports in the total number of China's exports. Let us take a look at some figures: the scope of the world market for mechanical and electrical products is about \$600 billion, or one-third of the world commodity trade. In 1984, the total volume of mechanical and electrical exports in China amounted to only \$1.5 billion, only .3 percent of the world export volume of mechanical and electrical exports and only 6.2 percent of China's total export volume. With such a situation in trade, if we want to really increase China's exports and thoroughly develop our superiority then we must gear our industrial production to the international market which means we must do the following:

1. Establish an export production system for mechanical and electrical products. The objective is to increase export exchange earnings to the greatest extent and to strive to realize the best economic benefits.
2. Establish an improved export commodity organization and seek out markets, such as those in Africa, Latin America, Southeast Asia, etc., for currently existing mechanical and electrical products. We must truly work to cover vast regions and function effectively.
3. Produce high-quality mechanical and electrical products. In order to adapt to changes in the international market, China's export industry department must raise the level of management, consolidate information gathering and technical research so as to attain international standards in quality.
4. Establish an export-processing area in order to attain the objectives of increasing China's processing capability for primary products and of increasing the competitive ability of exports.
5. Formulate protective and preferential policies and try to provide favorable terms as much as possible in various areas. We must comprehensively utilize regulatory mechanisms, such as the various economic levers of price, tax, credit, foreign exchange rates, export bonuses, export subsidies, etc.
6. Educate and train the labor force, improve their quality and convert them into a technically skilled labor force.

Through the above-mentioned measures, we can change the export industrial structure from light and textile industries to mechanical and electrical industries and gear China's export industry to the international market and thereby bring about two changes in the export commodity structure. This will enable us to reach the objectives of promoting and expanding and increasing exchange earnings.

To expand exports it is necessary to develop the appropriate export industries. At the same time, industrial growth will strongly stimulate exports and the two will help each other develop and promote each other. Moreover, the growth of the export industry is not merely a matter of increasing the proportion of the volume of imports and export in the national economy. Even more important is the fact that China's industrial distribution, change the industrial structure, accelerate China's industrial development, and provide a firm material foundation for expanding various scientific fields and contacts with advanced countries throughout the world. Industrial growth can spur imports, expand foreign trade, and allow us to reach the basic balance of imports and exports as recommended in the Seventh 5-Year Plan and, at the same time, increase them. We can thereby change the position of China in the world economy in a systematic way so as to encourage a benign cycle in China's economy.

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LIU GUOGUANG DISCUSSES STRATEGY FOR SEZ DEVELOPMENT

Beijing CAIMAO JINGJI [FINANCE AND TRADE ECONOMICS] No 2 in Chinese
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[Article by Liu Guoguang [0491 0948 0342]: "Certain Problems Relating to the Strategy for the Development of China's SEZ's"]

[Text] 1. The establishment of SEZ's in Shenzhen, Zhuhai, Shantou, and Xiamen since 1979 has captured the imagination and attention of people at home and abroad. The pros and cons for the establishment of these SEZ's have been a subject for discussion during the last few years. What is of special interest to Chinese and foreign economists is the future development of these zones. It is my opinion that, in order to render an accurate assessment of the work that has been done and a proper appraisal of developments from now on, it is necessary to make an overall analysis and acquire an accurate understanding of the nature of the SEZ's and the strategic objectives and strategic phases of their development.

2. In 1985, I visited the Shenzhen SEZ with some scholars from the Chinese Academy of Social Sciences to engage in an exhaustive investigation and study of problems relating to the strategy for the development of SEZ's. Some of our findings have already been published in newspapers and magazines. We pointed out that the purpose of the government in establishing the SEZ's is not simply to designate certain export-processing zones to attract foreign businessmen to establish factories to solve the employment problem and to earn foreign exchange, or to establish free ports and trading zones to develop entrepot trade. Rather, it is to use the SEZ's to promote economic relations with foreign countries in order to attract more foreign capital, to import advanced S&T know-how and management methods and to develop their pivotal role as "the four windows" [to the outside world] and "the two sides of the fan" [the intermediary between China and the outside world]. It is also the purpose of the government to engage in bold experiments in the reform of the economic system, to make use of its experience in engaging in various reforms to promote our socialist modernization construction projects and to add vigor to its strategic policy of recovering sovereignty over Hong Kong, maintaining its stability and prosperity, hastening the return of Taiwan to the motherland and bringing about the realization of the concept of "one nation under two systems." In view of the manifold nature of the SEZ's established according to that concept, the purpose and nature of these zones are different from such

special zones as simple export-processing zones, free ports, free trading zones, and science parks that have been established in many parts of the world. Rather, our purpose is to establish SEZ's of the comprehensive type combining all their features. The establishment of these multipurpose and comprehensive SEZ's entails much greater difficulties than the establishment of simple processing zones or free ports. That is what we have to bear in mind when studying the problems of the SEZ's.

3. The strategic objective for the establishment of SEZ's is determined by the strategic position they occupy and the role they play in engaging in socialist modernization projects. In line with the above-mentioned strategic purpose of the government in the establishment of SEZ's, they should, in implementing the open door policy and in bringing about economic reforms, take the lead in finding a way and capitalizing on their experience to help open up and bring about reforms in the coastal areas and throughout the nation. In view of the strategic position of and the role played by the SEZs as well as their special geographical position in relation to neighboring Hong Kong and Taiwan across the sea, we have come to the general conclusion that the strategic objective for the development of the SEZs requires that it should be outwardly oriented, that it should be of the comprehensive type that places major emphasis on its industries, that it should engage in the simultaneous development of industries and trade and that it should integrate industry, trade, and technology in their operations. This viewpoint has been reflected in the relevant documents of the State Council. As to certain wordings and their implications, those in economic circles in China have always entertained different views. The debate that has been going on in recent years will serve to promote a further understanding of the strategy for the development of SEZ's.

4. Some years after the establishment of the SEZ's, we decided in 1984 to go a step further in opening up 14 coastal cities and Hainan Island to the outside world. In 1985, the decision was made to establish the Chang Jiang delta, the Zhu Jiang delta and the delta area in southern Fujian as open economic areas. Thus, from one end to the other, the coastal area stretching for 1,000 li from north to south, has become one single multilevel open area. That the policy adopted for the SEZ's is correct is attested to by the fact that the formation and development of the open areas along the coast are similar to the experiments being conducted in the SEZ's. However, with the increase in the number of cities and the expansion of the areas open to the outside world, changes have been and will continue to be made in the position of the SEZ's in the implementation of the open door policy and the role they have to play. On the one hand, the geographic proximity of the SEZ's to Hong Kong, Macao, and Taiwan is an advantage not enjoyed by other cities. The state will not only continue to adopt a special policy for and to accord preferential treatment to the SEZ as a testing ground for the implementation of the open door policy for the entire nation, but will adopt even more liberal policies and measures if necessary. The management method used by the SEZ has made it easier to adopt even more liberal policy measures. One example is the further simplification of the entry and exit procedure recently adopted by Shenzhen. On the one hand, the SEZ's will maintain their special position and continue to play their role in the implementation of the open

door policy. On the other, with the increase in the number of cities and areas open to the outside world, foreign businessmen have been given greater freedom in the choice of sites for investment. The SEZ's are thus not likely to retain all the special attraction they had in the past for foreign investors, because the terms offered foreign investors by the coastal cities and areas open to the outside world, while not as attractive as those offered by the SEZ's, are still favorable. For this reason, the SEZ's can no longer count on preferential policies to attract investments and to import technologies. Rather, they must take advantage of their special position to offer a better investment climate, improve the quality of their staff workers, and upgrade their administrative efficiency in competing for foreign capital for their own development.

5. After we had made the proposal in 1985 that, in the implementation of the open door policy, the development of the SEZ's should be of the outward-oriented type, there were those in economic circles who came forth with the opinion that the SEZ's should be of the "two-way type" or the "open type" on the ground that, in order to develop their pivotal role as "the four windows" and intermediary point between China and the outside world, they must develop their economic operations inwardly as well as outwardly, that they must make use not only of foreign, but also domestic, capital and technology and that commodities must be sold domestically as well as being exported. This proposition fails to take note of one fact, namely, that the outward orientation of the SEZ's should be of the highest order in the coastal areas open to the outside world, that, by equating the SEZ's with cities open to the outside world, it would be impossible to come up with an order of precedence for the economic operations of the SEZ's in their domestic and external relations, so that the strategic objective in the direction for SEZ operations would become blurred and the SEZ's would prefer to tackle easy tasks rather than difficult ones. One major reason accounting for the fact that some of the SEZ's had, in the course of the last few years, established a number of internally oriented enterprises contrary to the strategic objective is that the direction for SEZ operations had become indistinct. There are also those who are of the opinion that the outward-oriented economy of the SEZ's is no different from the type of economy oriented toward foreign trade in that the common objective is the expansion of exports to earn a larger amount of foreign exchange. While it is true that one major task of the SEZ's is the enlargement of exports and the earning of foreign exchange, those who hold this view have failed to recognize the manifold nature of the strategic objective for the SEZ's and that the export of products for earning foreign exchange is not the sole purpose for establishing SEZ's. If that were all that the outward-oriented type of operations signifies, then there would be no difference between SEZ's and ordinary export-processing zones and free trading areas.

As to the need for the SEZ's to have a higher degree of outward orientation than other open areas, we listed in 1985 three major objectives for the SEZ's: First, foreign capital should be the main source of funds, constituting more than 50 percent of the investment in the industries; second, most of the products, eventually constituting more than 70 percent of the value of the commodities produced by the enterprises, should be exported; third, there

should be a favorable balance in foreign exchange incomes and expenditures in the import/export trade. These three objectives were put forward with the Shenzhen SEZ in mind. They can be achieved following a period of uphill struggle. Naturally, these objectives cannot mechanically be applied to all the SEZ's, especially those that do not share the same capacity for volume. Instead, suitable adjustments should be made according to the different circumstances of each and every SEZ. For instance, the proposal was made at a conference on the work of the SEZ's in early 1986 that over 60 percent of the finished industrial products should be exported during the Seventh 5-Year Plan. Due to the large number of old industries in the Xiamen SEZ and the large proportion of products sold domestically, it is likely to lag behind other SEZ's.

6. As regards the industrial structure and the points of emphasis in the various SEZ's, most people are agreed that the SEZ's should attach major importance to advanced industries and that they should engage in both industry and trade as well as in tourism, banking, and real estate. During the discussion on the industrial structure in Shenzhen, however, there were those who insisted that major emphasis should be attached to trade in view of the proximity of Shenzhen to Hong Kong and the advantage which should be taken of the convenience of communications, the quick access to information, and the free flow of channels to fully develop foreign trade and such related operations as processing, packaging, storage, and transportation so as to make Shenzhen a large entrepot and shopping center. There were also those who believed that Shenzhen should use the proceeds from such partially outward-oriented operations as tourism and trade to further develop its outward-oriented industries, agriculture, and banking. Still others proposed that in order to strengthen its economic, technical, and cultural exchange with foreign countries, Shenzhen should adopt as a major part of its strategic policy the development of the circulation- and service-oriented tertiary industry in order to give an impetus to the overall development of industry, science and technology, agriculture, the training of personnel, and other trades and businesses. All these proposals have their merits. Insofar as the businesses engaged in the development of trade and direct economic and technological exchange with foreign countries are concerned, there is no doubt that Shenzhen enjoys an advantage not shared by other SEZ's. Furthermore, since the natural resources of the Shenzhen SEZ itself are limited, extreme importance must be attached to the development of trade without which it would be impossible to develop the natural resources and to open up the markets necessary for the development of its industrial and trade operations. The problem is that in the development of the strategic objective, trade and such service industries as tourism cannot take over the important position assigned to the advanced industries. To play their pivotal role as "the four windows" and as the intermediary point between China and the outside world, the SEZ's must have a motive force as represented mainly by these industries. It is only by engaging in industrial operations that the SEZ's can adapt foreign capital, technology, know-know, and management methods to the actual conditions existing in our nation and then bring them to the hinterland following a process of digestion, absorption, transformation, and innovation. [We can also bring primary products from the hinterland to the SEZ's and according to current demand on the international market, import foreign

technology in order to smoothly sort out, further process and package, and improve the general appearance of the finished products.] Giving priority to industry is not, however, the same as assigning secondary industry a position of preeminence. From the long-range point of view, tertiary industry, which already exceeds secondary industry in scale and proportion in the industrial structure of the SEZ's needs to be further developed, particularly commerce, banking, information, services, and tourism. However, in consideration of the existing circumstances and the task that has been assigned to the SEZ's, continuous efforts must be made to enlarge the scale and proportion of industries over a considerable period of time. It is by no means certain that it would be proper to attempt to match the industrial structure of the developed nations at too early a date and to give tertiary industry priority over secondary industry, since such an attempt would lead us to relax our efforts to develop the advanced industries and adversely affect the proper readjustment of the existing industrial structure.

To give priority to the advanced industries is, in a certain sense, to give priority to the export-oriented type of industries. Each SEZ must establish its export-oriented industrial system with its own special features. Neither all the people in Hong Kong and Macao nor some foreigners share our enthusiasm in developing our export-oriented industries. They are most interested in our domestic market and more concerned over the competition we offer the industries in Hong Kong and Macao. It is true that some of the industrial products made in the SEZ's can be substituted for certain imports and that domestic sales should be permitted according to the policy of "using domestically produced import substitution items in place of imported technology" and having to use raw and processed materials and semi-finished goods. The SEZ's should attach importance to developments in the international market, take advantage of the domestic situation, avoid engaging in the manufacturing of products that are already flooding the international market, and concentrate on the development of products not made in Hong Kong and Macao to avoid creating friction with the industries in those regions. Since our export products constitute only a small part of the volume in the international market, there is a lot of room for maneuver.

In the development of their industries, the various SEZ's must, under present circumstances, establish a proper structure for their industries and their products. While studying this problem in Shenzhen in 1985, we felt that too much importance had been attached to the inward-oriented electronics industry, that some adjustments must be made, and that there was a great potential for the development of the food, light and textile, quality chemical, and machinery industries. We believed that the various SEZ's should, in line with their special features and local conditions, take advantage of their strong points, avoid exposing their weaknesses, and refrain from adopting a uniform structure for their industries.

7. In the establishment of advanced industries, the SEZ's must decide what type of technological development to adopt. Insofar as advanced industries are concerned, the SEZ's should, as much as possible, import the extensive type of know-how and technology. To play their role as windows for the importation of technology and know-how, they must also make the establishment

of technically long-term objective during their long period of struggle. However, it is neither possible nor necessary at the present time for the SEZ's to import the most advanced technologies in the world. The reason is that in playing their role as windows and key centers, they must give consideration not only to how advanced the imported items should be, but also to our own capacity for digesting and absorbing such items; they must concern themselves not only with the absorption of technologies, but also whether or not their products can be sold to increase their foreign exchange earnings; their development and whether they would meet the needs for the construction of the nation at the present time. In short, they must strike a happy medium between the import of advanced technologies and economic rationality and between the focal point of the latest development and long-term objectives in their struggle. In view of the policy of some nations to maintain a certain technological gap in relationship to China and the fact that the industrial foundation and the S&T development of the SEZ's cannot be compared with those in the coastal cities open to the outside world, it would be difficult from the objective point of view for the SEZ's to establish industries requiring intensive technology and know-how. For this reason, the tentative plan for the development of the industrial structure of the Shenzhen SEZ during the Seventh 5-Year Plan is for the industries making use of the gains made by the modern technological revolution to produce new industrial products accounting for only around 20 percent of the new GVIO, for the traditional industries set up with advanced technologies to account for 60 percent of the GVIO, and for the traditional industries of the labor-intensive type to account for no more than 20 percent. At the moment, aside from directing our efforts toward the development of a few "dual intensive" enterprises to produce commodities up to world standards, we must also take note of the special features of the different countries, regions, and markets to produce industrial products that are more technologically advanced than those produced in the hinterland and that are competitive and capable of being exported for earning foreign exchange. Although import processing is not the way to develop the industries of the SEZ's, it remains a major source of foreign exchange earnings at the present time. By absorbing technological knowledge and offering training to the contingents of workers, it is possible to make use of import processing to create favorable conditions for future development. For this reason, it is still justifiable to engage in import processing.

8. As regards the different stages of development in the SEZ's, three strategic stages were set up in 1985 for the development of Shenzhen: a) The period between the establishment of the Shenzhen SEZ to the last phase of the Sixth 5-Year Plan was designated the initial or founding stage; b) The period between the closing phase of the Sixth 5-Year Plan to around 1990 was designated the development or formative stage; c) The period between 1990 and the end of the present century was designated the progressive or heightening stage. The setting up of three different stages for the development of the Shenzhen SEZ is equally applicable to other SEZ's. Although opinions differed regarding the proper wording later discussions, the setting up of the three stages was, by and large, accepted by all concerned. Some comrades preferred to call the three stages the founding stage, the adjustment stage, and the developmental stage. Others referred to them as the preparatory stage, the developmental stage, and the mature stage. Still other comrades called the

first stage the foundation-laying state, the second stage the initial stage for the development of outward-oriented operations, and the third stage as one marked by the establishment of the truly outward-oriented type of economy. The exact working is something which remains to be worked out. The question which concerns us is what problems have emerged as the first stage is giving way to the second in the SEZ's. Some comrades are of the opinion that the economy in the SEZ's is still of the inward-oriented type, that the SEZ's have yet to adopt what may be termed "the three priorities" (the priority of making foreign capital the main source of funds, the priority of giving the industries preeminence in the industrial structure, and the priority of producing export commodities), and that there still exists the problem of shifting from the inward- to the outward-oriented type of operations. Some comrades, however, have taken exception to the word "shift" in view of the fact that, when the SEZ's were first established, the state had called for the establishment of the outward-oriented type of economy in the first place and that some of the SEZ's have abided by that policy all along. Our problem is how to continue to develop the outward-oriented type of economy. It is obvious that the SEZ's have, since their establishment, achieved considerable progress in establishing the outward-oriented type of economy as required by the state. However, for various subjective and objective reasons, they still have a long way to go to achieve that objective. That being the case, we must adopt positive and effective measures to bring about the gradual establishment of the truly outward-oriented type of economy. Since the various SEZ's were established at different times under different circumstances, uniformity cannot be expected in their performance. At present, most of the SEZ's are in the crucial process of establishing the outward-oriented type of economy. Following the founding stage, and after the question of whether or not the SEZ's should be established has been resolved, when they have acquired a sense of confidence, when they have taken shape, and when an approach has basically been found for their establishment, then the time is ripe for tackling the complicated problems of actual implementation. It is for this reason that the work at the present stage has presented greater difficulties than those encountered during the founding stage.

9. As has been mentioned above, the SEZ's have, generally speaking, entered upon the second or formative stage. In order to better approach the strategic objective, it is necessary to review the work that has been done during the previous stage. At a certain period in 1985, people had all kinds of opinions about the SEZ's. There were those who believed that the Shenzhen SEZ did not have a single redeeming feature. Doubts were entertained even by friends as to whether the establishment of the SEZ was a mistake. Now, the achievements made by the SEZ during recent years are there for all to see. First, the SEZ has created a better investment climate; second, it has made a start in absorbing foreign capital and importing technologies; third, tremendous progress has been made in industrial and agricultural production and secondary industry, some products have been put in the world market, financial receipts have shown a sizable increase, and the standard of living has been much improved; fourth, in opening up to the outside world and reforming the economic system, the Shenzhen SEZ has offered valuable experience to the coastal areas and has provided training for many talented people.

The most serious criticism that has been leveled against the SEZ's is that they have, in the course of the last few years, failed to observe "the three priorities" and to do what they were originally required to do. In assessing the achievements of the SEZ's, however, it is necessary to take note of the problems they have had to contend with in the course of their establishment and development. Again taking Shenzhen as an example, the most obvious problem since 1985 is that, first, it has developed at too high a speed and attempted to do more than it is capable of doing. Since 1980, investment in capital construction has been increasing at the average rate of 1.4-fold annually, a rate that is beyond its subjective capability and objective needs in terms of manpower and material and financial resources. The area of development over the last few years in Luowu, Shangbu, Shekou, Nantou, and Shatoujiao has exceeded 50 sq km, whereas the area of development in Guanzhou all these years has come to only 54 sq km. Second, the industrial and investment structures are out of keeping with actual needs. The first few years witnessed the extremely rapid development of commercial trade, and real estate. Although the value of industrial production began to climb in 1984, Shenzhen is still unable to turn around the situation marked by the predominance of commerce and trade. Concerning investment in 1985 investment in industry stood at 24 percent and investment in the tertiary services sector such as commercial operations, real estate, tourism, and guesthouses, amounted to 35 percent. The utilization ratio was low and economic effectiveness was also poor. Third, the outward-oriented objective has not been clearly defined, the proportion of foreign capital among the sources of investment is not sufficiently large, and too much reliance has been put on domestic capital and bank loans. Many of the newly established industries are engaged in simple processing aimed mostly at domestic sales, so that the net industrial production value comes to only around 20 percent of the gross production value, a rate that is lower than the national average. Many enterprises have a low capacity for exporting their products to earn foreign exchange and difficulty in achieving a foreign exchange balance. Fourth, Shenzhen has, in the process of its development, relaxed its efforts to consolidate, digest, upgrade, and perfect its operations. By failing to pick and choose with care in its work of introducing from abroad and cooperating with units in the interior and to maintain a high standard of management, it has been plagued by certain problems which also afflict the other SEZ's to various degrees.

Failure to recognize the above-mentioned problems is a mistake which would hamper the efforts of the SEZ's to proceed to a higher stage of development. However, it is also a mistake to allow such problems to overshadow the achievements that have been made. These problems have occurred while progress is being made by the SEZ's in the course of their development; some have resulted from operational errors; some may be attributed to the SEZ's lack of experience in dealing with new situations and the inevitability of being sidetracked; some are unavoidable in the developmental stage of the SEZ's. During the initial period, for instance, it is difficult to argue against establishing basic facilities in the cities, engaging to a larger extent in real estate operations and the further development of trade and commerce prior to the importation of funds and technologies for the establishment of advanced industries. To solve these problems, we must make use of our experience to do better work after we have reached a new stage of development.

10. The meeting in Shenzhen on the work of SEZ's called by the State Council in early 1986 marked the advent of a period of transition for the development of the SEZ's. The meeting affirmed the major progress that had been made by the SEZ's since their establishment, pointed out in explicit terms that the major task of the SEZ's was the establishment of industries during the Seventh 5-Year Plan, that the outward-oriented type of economy based on industry and trade was to be adopted, that more advanced technologies were to be imported so that more products would be put in the world market, and that the pivotal role of the SEZ's as "the four windows" and the intermediary point between China and the outside world would be further developed. In order to accomplish these tasks, it would be crucial for the SEZ's to shift their emphasis from engaging in preparatory work and the laying of a foundation during previous years to production of a higher standard and with greater effectiveness. According to the intermediate- and long-term programs for the development of the SEZ's in the coming years, we must no longer direct our attention to speeding up the rate of development and enlarging the scope of construction, but to manufacturing, replenishing, and upgrading complete sets of products. We must no longer put emphasis on the development of trade and commerce and real estate operations, but gradually set up a structure for the commodities and industries that are in line with the special features of each SEZ and put major emphasis on the export-oriented industries. In implementing the principle of introducing from abroad and cooperating with the domestic units, we must select projects with extreme care and direct our efforts toward the production of exportable commodities for earning foreign exchange. Other operations, such as planting, breeding, tourism, construction, trade, and banking, must be developed in a coordinated manner around the export-oriented economy based primarily on industry. To shift the economy from one type to another, the SEZ's must also speed up the pace of reform of the economic system and establish a proper mechanism that is capable of combining the invigoration of the open door policy from the microeconomic point of view with the strengthening of administration from the macroeconomic point of view. While seeking to improve the investment climate, we must pay special attention to software; we must break new ground in engaging in economic legislations, in upgrading the quality of workers, and in increasing administrative efficiency.

Since 1986, the various SEZ's, in conformance with the decisions made at the meeting held at the beginning of the year on the work of the SEZ's, have achieved creditable results in overcoming the difficulties presented by the deployment and adjustment of their work. Shenzhen, for instance, has decided not to develop new areas and not to construct new hotels. With 1984 as a point of reference, it has set aside 1.65 billion yuan for capital construction in 1986, representing a reduction of 42 percent compared to 1985. Between January and September 1986, 1.1 billion yuan was spent on capital construction. Although the amount was 41.5 percent less than that for the same period the previous year, the area of completed construction was actually larger. Another 117 factories have been built and put into operation. Between January and September 1987, industrial production registered a 19.6-percent increase compared to the same period the previous year. It is expected that the increase will come to 23.6 percent for the entire year. Thus, the problem brought on by the excessive rate of increase (60 percent)

has been somewhat ameliorated. During the first 9 months of 1986, the GVIO enterprises financed by foreign capital came to 60 percent of the total in Shenzhen; the value of export industrial products came to 43 percent of the GVIO. The figure for Shekou was 68.4 percent. It is expected that, in accordance with the Seventh 5-Year Plan, the various SEZ's will in various degrees embark on the road toward the export-oriented economy. With that as a foundation, we shall, by the end of the century 10 or more years from now, turn the SEZ's into economically developed zones marked chiefly by advanced industries, industrial and trade development, a proper industrial structure, an advanced standard, a high standard of civilization, and an outward-oriented economy of a high order.

11. Finally, I would like to share my views regarding the strengthening of economic relations between the Shenzhen SEZ and Hong Kong. There were those in the past who believed that it would be necessary for the SEZ to compete with Hong Kong and to take over its place eventually. To say the least, that is the result of a misunderstanding. Hong Kong and Shenzhen have both their advantages and disadvantages. Their relationship, rather than one of an adversary of growth or decline character, is one of a mutually promotional and supplementary nature. Because of its geographical position and historical background, Hong Kong, buttressed by its banking, trade, shipping, information, and tourist operations, has already become a multifunctional international economic center with an industrial foundation of a certain technical standard. However, in addition to a shortage of land and raw materials, it has a limited local market and S&T capability. On the other hand, Shenzhen, since the recent adoption of a policy more open than that for the coastal cities, has made good progress in improving its investment climate. In addition to that, the cost of land and labor is relatively low. Especially worthy of note is that it can count on an abundance of natural resources, a vast market, and the industrial and technological backing of the hinterland. Thus, the development of projects of economic cooperation between Shenzhen and Hong Kong is certain to bring out the best of each. Now that the joint Sino-British statement regarding the future of Hong Kong has come into effect, the maintenance of prosperity and stability in Hong Kong during the next 11 years is a matter of great concern to the people of the entire nation, including those in Hong Kong. Shenzhen has embarked upon a new strategic stage of development and is in the process of establishing an effective outward-oriented overall SEZ of a high standard. A new historical era has dawned on the economic relations between the two cities. They must make full use of their advantages, learn from the other's strong points to offset one's weaknesses and coordinate with and help one another to bring prosperity to both.

The future is extremely bright for the development of projects of economic cooperation between the Shenzhen SEZ and Hong Kong. In the industrial sector, for example, most of the industries in Hong Kong, lacking in the means of industrial production, are of the light industrial variety in a limited number of categories. Shenzhen, on the other hand, is capable of developing to a considerable extent the manufacture of machinery and precision instruments and such means of production as petrochemicals and raw materials. It can import advanced technologies and equipment through Hong Kong, engage in precision

processing of raw materials and semifinished products from the interior and ship them to Hong Kong in support of its industries. In the electronics industry in particular, while Hong Kong already has a considerable foundation, Shenzhen, with the support of the hinterland, has also made a rapid start. [Shenzhen and Hong Kong now both want to develop products used in the intermediary stage if the production procedure such as electronic components, spare parts, and basic components, products that are not only in demand in Hong Kong, Shenzhen, and the interior, but also in overseas markets.] Coordination and cooperation between Shenzhen and Hong Kong in developing the electronics industry along specialized production lines would be of extreme benefit to both. Taking the food industry as another example, the Zhu Jiang delta and the various areas throughout the nation enjoy an abundance of subsidiary agricultural products. Beyond Hong Kong on the border of Shenzhen lie the Southeast Asian nations. The future is extremely bright for Shenzhen to engage in projects of cooperation with businessmen in Hong Kong and foreign countries with experience in the food industry and the potential ability of creating foreign markets to upgrade the manufacturing and packaging of food products, to raise their added value, and to turn out products with special Chinese features and a high standard. At its present stage of development, it is also necessary for Shenzhen to engage in the "three forms of import processing and compensation trade" operations in cooperation with Hong Kong. By taking advantage of the available land and low wages in Shenzhen and by moving some of its factories to the SEZ, Hong Kong can also increase the competitiveness of its products, provide training to key technical workers in Shenzhen, and offer the SEZ a share of its profits. In short, a variety of measures can be adopted for Shenzhen and Hong Kong to engage in a wide range of cooperation in industrial production. Aside from industry, there is also a great potential for the development of cooperation between the two cities in trade, banking, tourism, science and technology, administration, the development of talent and information. It is expected that by 1997, further progress will be made by both Shenzhen and Hong Kong on the foundation that has already been laid, the gap between Shenzhen and Hong Kong will be bridged, mutual relations between the two will become even closer, and further contributions will be made to bring prosperity to the motherland.

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SEZ ECONOMIC GROWTH PROSPECTS

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[Article by Li Jianying [2621 0256 5391] and He Dongxia [0149 2639 7209]:
"Economic Growth Prospects for SEZ's"]

[Text] SEZ's will grow in the future by gearing their economies to the outside world. What does this mean? We think that its lowest common denominator is that they will have to stress exporting their products.

1. Economies That Are Geared to the Outside World Are Different From Those That Are Open to the Outside World.

The difference is that even though an open economy refers specifically to the policy of opening to the outside world, it also includes the two aspects of importing and exporting. If SEZ's have open economies, such acts as importing foreign funds, technology, or commodities and exporting SEZ commodities, technology, or capital will all enjoy the privileges of the special policies regardless of their importance. But economies that are geared to the outside world stress "being geared to the outside world," and their principal strategy is directed toward the need to export to international markets. Since China has a shortage of funds and backward technology, we can mainly export commodities. Since the Shenzhen SEZ was established, although it has done much work in the area of importing technology and funds, and had used \$335 million of foreign capital by the end of 1984, the amount of imported funds and technology that it will need will continue to rise along with steady improvement of its infrastructure. But the present issue is that most of the products that are produced with these imported funds and technologies cannot compete on international markets and have to be sold in China. The principal issue in gearing SEZ economies to the outside world is the orientation of their products. Thus, the SEZ's will have to completely regear and, taking importing as their means and exporting as their goal, transform themselves into commodity production bases that are geared to international markets.

2. The Goals of SEZ's That Are Geared to the Outside World and Advanced S&T Fields Should Not Be Continuous Increases in Their Foreign Capital and the Output Value of Their Wholly Foreign-Owned Enterprises, Sino-Foreign Joint Ventures, and Sino-Foreign Contractual Joint Ventures.

As to the ownership structure of the Shenzhen SEZ, more than half of both its industrial enterprise fixed assets and its GVIO are accounted for by foreign capital. But only 7 percent of its projects that are built with imported technology are up to advanced international standards, while only 27 percent of them are even up to advanced domestic standards. It is thus clear that most of them are still technically backward. The more of these kinds of enterprises that are imported, the heavier will be the load on our markets. Thus, our premise in importing them must be that most of their end products will have to be exported. Only in this way will SEZ's be able to penetrate international commodity markets and, then, international financial, information, and technology markets, genuinely bring themselves up to advanced international technical standards, achieve a good cycle of steady improvement of their product competitiveness and technical ability, and continue to absorb advanced technology, transferring and spreading it throughout China and truly becoming "windows" for our socialist modernization.

3. SEZ's That Are Geared to the Outside World Will Also Have To Balance Their Foreign Exchange Through Stressing the Export of Their Products, Whose Marketability Will Create a Natural Balance; a Buyer's Market Is Merely an Advantage of Foreign Trade, and Does Not Reflect on the Significance of SEZ's.

In order for SEZ's to transform themselves into an organic whole of advanced industrial production bases and modern international production, they will have to buy more at first. Only when the income from the products that they produce and export can make up for the cost of importing such things as technology, equipment, and raw and processed materials, and they have a basic balance of foreign exchange, can SEZ's be considered to have achieved a balance of foreign exchange by gearing their economies to the outside world. Using ordinary foreign exchange balance criteria to judge whether SEZ's have geared their economies to the outside world might blur the distinction between being geared to the outside world and having a favorable balance of foreign trade (many countries and regions that have a favorable balance of foreign trade indeed do not have economies that are geared to the outside world), or lead SEZ's down the wrong road of using unwise means to increase their foreign exchange income. This is because such means as exporting primary products and traditional handicrafts, and importing commodities for domestic sale at a profit, can both help SEZ's achieve a balance of foreign exchange.

China's SEZ's have just completed the first stage of gearing their economies to the outside world, i.e., the stage that stresses exporting labor-intensive processed products. Foreign capital was imported in this stage through selling labor and land cheaply, and not at domestic market prices. Thus, the standards for importing technology and exporting products should not be set too high, but the focus must be put on industry, and on processing and assembling products of new and developing industries in particular. This is because SEZ's must have industry in order to gear their economies to the outside world. The present phenomenon in SEZ's of commerce flourishing

more than industry should be changed. Of course, while most processed products will be exported, some of them will also be sold in China. Since they are products of new and developing industries, they are ones that China must, but has not yet, developed, and will not swamp national industries as have textile, mechanical, and electronic products.

The next stage of gearing SEZ economies to the outside world will stress exporting technology- and knowledge-intensive products. After a certain amount of foreign exchange funds is accumulated through exporting labor-intensive processed products, SEZ's can concentrate on producing certain fast-selling products through integrating imported advanced technology with domestic technical forces. They should be competitive on international markets, be sold in large amounts for foreign exchange to import technology, and gradually enable SEZ's not only to buy technology with foreign exchange, but also to become markets that can import and absorb a great deal of advanced foreign technology, equipment, raw and processed materials, and components. They can then be exchanged for technology on SEZ markets, and gradually enable SEZ's to turn to producing knowledge- and technology-intensive products. On one hand, SEZ's will export their products and, on the other, transfer and spread advanced technology throughout China, truly developing their pivotal role of foreign technical exchange and economic contact, and becoming basically independent industrial production bases that can create foreign exchange through exports, pioneer new technology, and achieve a good cycle of promoting production with technology and spurring more exports with more production.

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STUDY ON FACTORS INFLUENCING RURAL LABOR PRODUCTIVITY

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[Article by Tian Weiming [3944 4850 2494], Agricultural Economics Institute, Chinese Academy of Agricultural Sciences: "Comparison Study of Agricultural Labor Productivity Rates in Each of China's Provinces, Municipalities and Autonomous Regions"]

[Excerpts] The goal of a comparison study on agricultural labor productivity rates is to analyze and evaluate agricultural labor productivity rates and their major structural elements (the intensivity of input into agricultural production and the technical efficiency of input utilization) relative levels in different areas, and the trend of changes at different times, as well as further exploration of the social, economic, technical and other possible factors that create differences in levels in different areas and differences in the speed of growth. Comparison studies of agricultural labor productivity rates help economic control organizations understand in macroeconomic terms the imbalances in regional agricultural development and the actions that need to be taken to solve this problem. This article applies the methods of comparison studies to the level of agricultural labor productivity rates in each province and region, and makes a preliminary evaluation and analysis of the speed of growth.

Comparison Study of Agricultural Labor Productivity in Each of the Country's Provinces and Regions

1. Agricultural Production Function for the Whole Country: When doing a comparison study of the agricultural labor productivity rate for every province, municipality, and autonomous region in the country, we used a Kebu [2688 1580] Douglas mode agricultural production function for the whole country. This production function used as data for calculations the 1981-1984 agricultural production statistics published in the "China Agricultural Yearbook." The amount of agricultural labor and the output value of agriculture were adjusted in calculations to eliminate nonagricultural labor and the output value of village-operated industry. The dependent variable in the formula was the average output value (10,000 yuan figured at 1980 constant prices) of each unit of labor engaged in agriculture. Five interpretative values that reflect production input are the area (mu) sown per unit of labor,

the amount of machine power per unit of labor (horsepower as of the end of the previous year), amount of chemical fertilizer used per unit of labor (net amount in tons), large livestock animals per unit of labor (previous yearend figures; sheep and goats converted at a coefficient of 0.18); and number of hogs in inventory per unit of labor (previous yearend figure). In addition, the formula contains a time variable reflecting the trend of technical progress in the agricultural sector, the year 1981 being assigned a value of 1 and an additional value of 1 being added each year. Since there is no regionalized imaginary variable, the effect of the technical efficiency level of each region and the nonproportional technical efficiency variation from year to year will be reflected primarily in the regression error. Table 1 shows the regression formula coefficient and the corresponding t test value.

Table 1. Regression Function for Agricultural Production Nationally

Variable	Regression Function	t Value (Degree of Freedom = 109)
Area sown per unit of labor	0.1960	2.83
Machine power per unit of labor	0.2033	5.02
Chemical fertilizer per unit of labor	0.2343	4.14
Large animals per unit of labor	0.0609	2.41
Hogs in inventory per unit of labor	0.0951	2.05
Time trend	0.0623	3.55
Constant	-2.2077	
Determinant = 0.744		
F Value = 52.82		
Standard regression error = .1959		

In the formula, each coefficient has a proper symbol and the corresponding to test values also exceed 95 percent of the significance level. The determinant $R^2 = 0.744$ shows that these six interpretative variables are able to explain the 74.4 percent of the variation in labor productivity rate (logarithmic form). The overall regression results are rather good.

2. Comparison of Labor Productivity Rates in Each of the Country's Provinces and Autonomous Regions: Using the computation method presented in formula (3), and using Beijing as the base value, we worked out the agricultural labor productivity rate indices, the intensivity of all inputs and the total input productivity indices for all the provinces' municipalities and autonomous regions in the country. In order to reduce the influence of chance fluctuations, we used as indices the geometric average values for 4 years. (See Table 2)

Table 2. Agricultural Labor Productivity Rates, Intensity of All Inputs and Total Input Productivity Indices

Place	Agricultural Productivity Rate	Intensity of All Inputs	Total Input Productivity
Beijing	100.0 (3)	100.0 (3)	100.0 (16)
Tianjin	63.7 (11)	72.3 (8)	88.1 (22)
Hebei	53.4 (18)	65.5 (11)	81.4 (27)
Shanxi	60.2 (15)	73.6 (6)	81.8 (26)
Nei Monggol	73.6 (8)	73.1 (7)	100.6 (15)
Liaoning	99.7 (4)	92.2 (4)	108.1 (10)
Jilin	136.8 (2)	109.4 (2)	125.0 (4)
Heilongjiang	155.4 (1)	122.1 (1)	127.3 (2)
Shanghai	94.4 (5)	75.3 (5)	125.3 (3)
Jiangsu	75.3 (7)	64.9 (13)	115.9 (6)
Zhejiang	60.8 (14)	50.9 (23)	119.6 (5)
Anhui	51.7 (19)	52.5 (21)	98.4 (17)
Fujian	62.6 (12)	56.2 (18)	111.2 (9)
Jiangxi	61.7 (13)	55.2 (19)	111.8 (8)
Shandong	67.8 (9)	65.1 (12)	104.0 (14)
Henan	48.9 (23)	54.1 (20)	90.3 (21)
Hubei	64.1 (10)	59.8 (15)	107.0 (11)
Hunan	51.2 (20)	49.0 (24)	104.5 (13)
Guangdong	51.0 (22)	52.2 (22)	97.8 (19)
Guangxi	41.2 (26)	44.9 (25)	91.8 (20)
Sichuan	42.9 (25)	41.0 (27)	104.8 (12)
Guizhou	34.8 (29)	35.5 (28)	98.1 (18)
Yunnan	36.4 (28)	42.8 (26)	85.2 (24)
Xizang	51.1 (21)	31.5 (29)	162.1 (1)
Shaanxi	47.2 (24)	57.1 (17)	82.8 (25)
Gansu	40.1 (27)	58.4 (16)	68.7 (29)
Qinghai	56.6 (16)	64.6 (14)	87.7 (23)
Ningxia	54.3 (17)	69.7 (9)	77.8 (28)
Xinjiang	77.0 (6)	66.9 (10)	115.0 (7)
National average	66.5	65.2	100.4
Standard deviation	28.4	20.3	15.4
Variation coefficient	0.43	0.31	0.15

Note: In figuring the national average values, the standard deviation, and the variation coefficients, Xizang was not included because the reliability of statistical figures was rather poor. Xizang has not been considered in the following analysis. Figures in parentheses in the table are the indices arranged in sequence.

Table 2 shows a marked variation in agricultural labor productivity rates among the country's various provinces and autonomous regions. The agricultural labor productivity rate in Heilongjiang Province, for example, is 4.47-fold again as high as for Guizhou Province. The agricultural labor productivity rate for southwestern areas and for Gansu and Shaanxi provinces is markedly lower than the average for the country as a whole, while the agricultural labor productivity rate for eastern coastal areas and for the three provinces of the northeast is fairly high.

The intensivity indices for all agricultural inputs has a distribution similar to the labor productivity rate indices. The correlation coefficient between the two reaches 0.934, showing that a high agricultural production input is an important requirement for a high agricultural labor productivity rate. The data in Table 2 show that provinces and autonomous regions having a fairly low level of input into agriculture include the southwestern border provinces plus the fairly economically developed provinces of Zhejiang, Hunan, and Guangdong. In the former provinces, the low level of input in agriculture results from the limitations of the local economic base and environmental conditions. In the latter provinces, it results from the limited amount of cultivated land. Comparatively, intensivity of input in the two land-resource-rich provinces of Jilin and Heilongjiang is higher than the average for the country as a whole.

The data in Table 2 show the variation among the country's provinces and autonomous regions in productivity from total input to be vastly less than the variations in labor productivity rates and input levels. The distribution of total input productivity indices differs slightly from the the first two indices. Generally speaking, the indices for the eastern coastal provinces (exclusive of Hebei) and for the three northeastern provinces is higher than the average for the country as a whole, but the indices for north China, northwest China (exclusive of Xinjiang) and for Henan, Guangxi, and Yunnan are in the lower reaches for the country as a whole. Total input productivity indices reflect fairly well the quality of agricultural production conditions in individual areas and the relative level of agricultural techniques.

Comparison of Trends Toward Increase in Agricultural Labor Productivity Rates in Different Areas: Formula 5 permits calculation of trends toward increase in agricultural labor productivity rates, the intensivity of all inputs, and total input productivity (1981-1984) for each area. (See Table 3)

Place	Agricultural Productivity Rate	Intensivity of All Inputs	Total Input Productivity
Beijing	20.3 (1)	6.6 (3)	13.7 (1)
Tianjin	16.4 (2)	5.2 (4)	11.1 (3)
Hebei	13.4 (5)	4.4 (7)	9.1 (6)
Shanxi	12.3 (6)	4.9 (5)	7.4 (11)
Nei Monggol	7.0 (18)	3.1 (12)	3.9 (22)
Liaoning	8.7 (13)	0.2 (24)	8.5 (7)
Jilin	8.3 (14)	-3.7 (29)	12.0 (2)
Heilongjiang	8.0 (16)	-1.4 (27)	9.4 (5)
Shanghai	14. (4)	6.8 (2)	7.3 (12)

Jiangsu	10.4 (8)	2.9 (14)	7.6 (10)
Zhejiang	6.9 (20)	2.4 (15)	4.5 (18)
Anhui	3.5 (26)	1.3 (20)	2.2 (26)
Fujian	5.6 (23)	2.2 (16)	3.4 (24)
Jiangxi	0.4 (28)	-1.7 (28)	2.2 (27)
Shandong	14.7 (3)	4.4 (7)	10.3 (4)
Henan	11.1 (7)	4.7 (6)	6.4 (14)
Hubei	9.1 (12)	4.0 (11)	5.2 (15)
Hunan	4.8 (25)	1.1 (21)	3.7 (23)
Guangdong	9.4 (10)	4.3 (9)	5.1 (16)
Guangxi	1.1 (27)	-0.9 (26)	1.9 (28)
Sichuan	9.2 (11)	1.0 (22)	8.2 (9)
Guizhou	6.0 (22)	1.8 (19)	4.2 (21)
Yunnan	7.1 (17)	4.0 (10)	3.1 (25)
Xizang	-4.9 (29)	13.8 (1)	-18.8 (29)
Shaanxi	7.0 (19)	2.0 (18)	5.0 (17)
Gansu	10.2 (9)	3.0 (13)	7.2 (13)
Qinghai	5.2 (24)	0.8 (23)	4.4 (19)
Ningxia	8.1 (15)	-0.4 (25)	8.5 (8)
Xinjiang	6.3 (21)	2.0 (17)	4.3 (20)
National average*	8.7	2.3	6.4
Standard deviation*	4.4	2.5	3.1
Variation coefficient*	0.504	1.095	0.490

*Does not include Xizang

The data in Table 3 show a fairly rapid increase in the agricultural productivity rate in some areas of the country that have been traditionally backward, particularly in provinces such as Hebei, Shanxi, Shandong, Henan, and Gansu, while some provinces in which agricultural conditions have been relatively superior such as Zhejiang, Fujian, Jiangxi, and Hunan have lagged behind the country as a whole. The rise in agricultural labor productivity rates in the three municipalities of Beijing, Tianjin, and Shanghai has far surpassed the average speed of growth for the country as a whole. This is largely attributable to large shifts of the rural labor force into non-agricultural occupations, resulting in more means of agricultural production being available for the work force engaged in agriculture. It should be noted that in the border provinces and autonomous regions of Guangxi, Guizhou, Qinghai, and Xinjiang, as well as in Anhui, the agricultural labor productivity rate has not risen rapidly. There is a close and direct correlation between the speed of increase in agricultural labor productivity rates and the speed of increase in both intensivity of all inputs and total input productivity, the correlation coefficients being respectively 0.71 and 0.83, showing a tendency toward synchronous increase of the three overall. The Table 3 data show the speed of increase in total input productivity in border provinces and autonomous regions, and in more economically and

culturally backward minority nationality autonomous regions to be less than in other parts of the country.

Results of the calculations show the rise over the past few year's in the country's agricultural labor productivity rate as resulting primarily from a rise in the technical efficiency of input utilization, and only secondarily from an increase in the amount of input. The former contributed an approximately 73-percent rise in speed of the labor productivity rate, almost threefold that of the latter. However, the increased input to agriculture resulting from this was not very important, but may have been extremely mistaken. The agricultural production responsibility systems that began to be tried out in the country's agriculture in 1979 had been instituted throughout virtually the whole country after 1983. The new farming methods were extremely effective in reducing the enormous waste that existed in the formerly collectively managed system and in raising the labor productivity rate, thereby bringing about a speed of increase in agricultural production that very greatly surpassed the speed of increase in inputs. This situation was reflected in the greater estimated value of the speed of increase in total input productivity. In terms of future development, the agricultural production responsibility system has entered the phase of perfection and improvement in which the possibility of gaining major increases in production through reduction in waste will be increasingly small. Further rises in the agricultural labor productivity rate can come about only through increases in inputs to agriculture and greater application of advanced agricultural techniques.

Analysis of Factors Affecting Regional Variations: Comparison study of agricultural labor productivity rates in different areas confirm marked differences in the relative levels and in the speed of increase of labor productivity and other constituent factors among the country's provinces, municipalities and autonomous regions. By way of a further exploration of the socioeconomic reasons for these variations, we made a correlation analysis using the percentage of the GVAO in the GVIAO, the output value per capita of the employed population, and the number of illiterates and semiliterates per 1,000 population, and the comparative indices and speed of increase calculated for the labor productivity rate and other factors. Table 4 presents these correlation coefficients.

Table 4. Correlation Coefficients For All Labor Productivity Rate Indices and Their Socioeconomic Factors

Particulars		GVAO as a Percentage of GVIAO*	GVIAO as a Per Capita of Employed Population*	Number of Illiterates and Semi- literate Per 1,000*
Indices	Labor Productivity Rate	-0.493	0.490	-0.578
	Intensivity of All Inputs	-0.582	0.475	-0.562
	Total Input Productivity	-0.154	0.372	-0.417
Speed	Labor Productivity Rate	-0.685	0.591	-0.329

of	Intensivity of All Inputs	-0.391	0.415	-0.041
Increase	Total Input Productivity	-0.644	0.493	-0.427

Critical value for two tail testing at 95 percent significance level = +0.3732

*Calculated from 1985 "China Statistical Yearbook" data; does not include data for Xizang

The percentage of the GVAO in the GVIAO is one indicator of regional economic structure. The Table 4 data show a marked negative correlation between this indicator and labor productivity rate indices, and the indices for intensivity of all inputs; the correlation factor for the total input productivity index is not statistically significant. This shows that in areas having a high percentage of output value from agriculture, the labor productivity rate is low, and the intensivity of input into agriculture is also low; however, there is no great difference from other areas in the efficiency of utilization of agricultural inputs. Reasons for this situation include the large amount of the labor force engaged in agricultural production in these areas while the undeveloped and other national economic sectors are as yet unable to provide vigorous support to agricultural production. As a result, the amount of input lags behind that of areas in which industrial production is advanced. The narrowness of the agricultural commodity market is an additional factor. It is worth noting that in places in which the industrial economy is not advanced, the speed with which the labor productivity rate, intensivity of all inputs, and overall input productivity increase lags behind the speed of increase in industrially advanced areas. This shows no narrowing, but rather a widening, of the labor productivity rate gap between the two areas. Increased support to industrially advanced areas in order to increase the amount of investment of these areas in agriculture seems to be a necessary means for raising the labor productivity rate.

There was a marked correlation exhibited between the per capita output value for every employed member of the population and the six evaluated agricultural productivity rate levels and the indicators for their speed of increase. This shows, once again, that support for agriculture by other sectors of the national economy is a necessary requirement for realizing highly efficient agricultural production.

The data presented in Table 4 show a significant negative correlation between the number of literates and semiliterates in the population and the three indicators of the agricultural labor productivity index, the index for intensivity of all inputs and the total input productivity index. This shows a close correlation between a low agricultural labor productivity rate and backward education. Though there is no significant correlation between the number of illiterates and semiliterates in the population and the speed of increase in intensivity of all inputs, the negative correlation with speed of increase in total input productivity exceeds the 95-percent credibility level. This demonstrates, once again, that a backward education is one important limitation on increase in agricultural labor productivity rates.

Conclusion

This article has used a Kebu Douglas mode nationwide agricultural production function and factoring methods to make a comparison analysis of the level of agricultural labor productivity rates and their speed of increase in the country's 29 provinces, municipalities, and autonomous regions from which the following several preliminary conclusions have been derived.

1. There are substantial differences in agricultural labor productivity rates in different parts of the country. The major element bearing on high and low agricultural labor productivity rates is the intensivity of inputs into agriculture; technical efficiency in the use of inputs is only secondary.

2. In terms of the period encompassed by this study, the role played by an increase in the efficiency with which inputs into agriculture are used on increasing agricultural labor productivity rates has to be greater than the increase in inputs into agriculture.

3. There is a close correlation between the level of intensivity of all inputs into agriculture and the speed of growth of total input productivity. This shows that an increase in technical efficiency helps the economy's effective use of more input into agricultural production, and a proper increase in input into agriculture can obtain the benefits of scale brought about by a rise in technical efficiency.

4. Both the structure of an area's economy and the level of its development have a marked influence on its agricultural labor productivity rate, the level of its intensivity of all inputs and the level of total input productivity as well as the speed of their increase. Agriculture in industrially undeveloped areas finds difficulty in gaining powerful support from industry and other economic sectors; not only is its labor productivity rate and input levels low, but the speed of increase in these is also rather slow. This may further widen existing gaps and thus special countermeasures must be taken.

5. An increase in the technical and educational level of the peasants has a positive effect in increasing agricultural labor productivity rates and technical efficiency in the utilization of inputs. Development of rural educational programs and of agricultural research should be a strategic measure for the development of China's agriculture.

Since only 4 years of statistical data were analyzed for this article, it is difficult to eliminate the effects created by chance fluctuations. Furthermore, other social, economic and technical factors that cause differences in labor productivity rates and the speed of development must await fuller exploration and analysis.

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GOOD OUTLOOK FOR GRAIN PRODUCTION

Beijing LIAOWANG [OUTLOOK WEEKLY] in Chinese No 8, 23 Feb 87 p 25

[Article by Song Jishui [1345 0679 3055] and Zhou Yichang [6550 6318 2512]:
"Outlook Good for China's Grain Production"]

[Text] The whole year's work depends on a good start in spring. Throughout China, and particularly in the grain-producing regions, there is now a healthy concern for grain production. This is primarily manifested in the following areas: peasant enthusiasm for planting grain has been increased; planting plans have been formulated more rationally; and agricultural inputs have increased. It is especially gratifying that in early spring this year the myriad of villages formulated a series of measures in keeping with their own actual conditions in order to ensure a steady increase in grain.

In Guangdong, the recently convened provincial party committee working conference urged continued adoption of effective measures to guarantee and mobilize peasant enthusiasm for planting grain so that they can obtain greater economic benefits. In suburban and developed areas, many specialized grain-producing households can be developed; grain fields can be concentrated among crack farmers so that they can implement intensive production and improve operating results. At the same time, resolute, effective measures must now be taken to guarantee that the existing area in rice paddies is not further reduced; scientific techniques and new, improved varieties must be introduced and popularized to increase unit yields. Where conditions warrant, the system of supplementing grain production with industry should be perfected. An effort should be made to ensure that the province's own grain production this year is at least 19 billion kg.

Jiangxi is striving for a significant increase in grain production this year over last year. Specific methods include: 1) Working hard to raise the multiple-crop index. Throughout the province, fields that are idle in fall and winter are being used to develop nearly a million mu of dryland grains such as soybeans, corn, and barley. Land potential is also being fully exploited to ensure that throughout the year 55 million mu are planted in grain crops; 2) expanding hybrid rice paddies by 3 million mu; 3) increasing the use of organic fertilizers and other approaches to transform low-yield fields; 4) reinforcing crop-protection work and improving insect pest forecasting and reporting to ensure abundant yields.

In Heilongjiang, the entire province is focusing on producing commodity grain and exporting soybeans, and on implementing this year's agricultural production plans: 1) Creation of soybean export bases and grain production bases: The province now has 57 municipalities and counties that are included in the grain and soybean production bases; they account for 82 percent of the cities and counties in the province. 2) Readjustment of the planting mix: This year the area planted in such high-yield crops as corn and paddy rice will increase by 3 million mu over last year. 3) Positive popularization of technologies to increase farm production: The area of target fields for the popularization of advanced technologies and high yields will increase over the previous year. 4) Increasing reserve strength for farm production: Making every effort to gradually transform the province's 50 million mu of low-yield fields within a reasonable period of time.

Grain-short Fujian is focusing on this year's grain production as important for developing the economy; comprehensive corrective measures are being taken to promote a steady increase in grain production. Preferential treatment is being given to such areas as capital for developing grain production, supplies of materials, technical farm services, storage and transport facilities, and technical training; for capital for developing grain production, linkage of money and grain is being used.

Hubei is striving to again increase grain production, with emphasis on the following measures: 1) Stabilizing the area sown in grain. This year the province's grain area will increase by more than 100,000 mu over last year. 2) Vigorous emphasis on summer grain production, expansion of the area sown in improved varieties, and increased inputs of chemical and household fertilizer. 3) The province's area sown in hybrid rice will be expanded to 12 million mu, and preparations are under way to use plastic sheet mulching to plant 1.5 million mu in corn. 4) Adjusting downward the fixed purchase quotas for grain, so that grain producers will have more grain available for participating in market regulation. The province has now reduced the grain purchase quota from last year's 3.5 billion kg (trade grain) to 2.6 billion kg. 5) Increasing agricultural inputs; in fertilizer alone, there will be an increase of 300,000 tons over last year.

Sichuan has adopted a series of measures to mobilize all forces for strengthening the agricultural foundation. Since last winter, the province has mobilized and organized a labor force of 6.2 million to do basic farmland improvement, repair and expand 44,000 already completed water conservancy works, restore, improve and add more than 380,000 mu of new irrigation area, and transform 1.12 million mu of low-yield fields. This year the area sown in grain will be expanded by 3 million mu by increasing the multiple-crop index and cutting back on low-yield crops. The province will also allocate more than 28 million yuan for construction of commodity grain bases and for supporting farm technology centers and rural farm technology stations. At the same time, unit yields will be the subject of intense attacks through science and technology, with the emphasis on improved hybrid varieties, plastic sheet mulching, semidry cultivation of paddy rice, increasing the multiple-crop index, and comprehensive prevention and treatment of diseases and pests.

These news items reflect the effort being made to give a new shape to China's grain production. This year the state has also made a tremendous effort in this area: 1) Increasing construction of and investment in water conservancy and farmland development, aiding local communities in building, improving and restoring irrigation works, and focusing on centralized grain production areas. According to incomplete statistics, a labor force of 38 million was involved in winter repairs to farmland water conservancy works; they began work on 370,000 such works and have completed 270,000. The amount of construction and the quality and quantity of the works completed exceeded those of the same period last year. 2) Increasing as much as possible the supply of chemical fertilizers, farm fuels, and materials. Total sources of chemical fertilizers have reached 88.2 million tons, approaching the amount actually applied in 1984; moreover, the amounts of superior compound fertilizers and potash fertilizer are increasing. 3) Improving technical services for grain production, exploiting land potential, and improving unit yields. 4) Continuing to reinforce creation of commodity grain bases. 5) Appropriately readjusting contractual purchasing quotas, expanding negotiated purchases, and improving grain circulation. By taking these measures, the state will be able to support and promote this year's grain production.

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HEBEI PEASANTS' INCOME, LIVING STANDARDS IMPROVE

Shijiazhuang HEBEI JINGJI BAO in Chinese 7 Feb 87 p 3

[Article by Jiao Zhongfang [3542 0022 2455]: "Hebei Peasant Income Increases Steadily, Living Standards Continue to Improve in First Year of Seventh 5-Year Plan"]

[Text] Results of a sample survey done by the Hebei Rural Economic Survey Team show that in 1986 Hebei's rural economy maintained steady growth, and there were new improvements in peasant living standards. Peasant income structure and consumption patterns also underwent changes. To summarize, the following major changes occurred:

1. Peasant Income Increased Steadily

In 1986, the per capita net income of Hebei's peasants was 407.6 yuan, an increase of 22.4 yuan, or 5.8 percent, over 1985. The change in the structure of peasant income was characterized in terms of source by a relatively greater increase in income earned from township enterprises and integrated economic entities, and, in terms of industry, by a greater margin of increase in income from secondary and tertiary industries. This increase in peasant income was achieved on the basis of the rapid 17-percent average annual increase during the Sixth 5-Year Plan. It indicates that Hebei's rural economy is entering a stage of conventional, steady growth.

The development of production is the wellspring of increased peasant income. In 1986 the percentage of net productive income in the peasant's net income was 87.2 percent; 76.5 percent of the increase in peasant income that year was achieved by developing production.

2. Growth of Commodity Production, More Cash Income

The increase in peasants' cash income is the result of developing commodity production. The growth of commodity production manifested itself first in the adjustment made in the industrial structure. Secondary and tertiary industries underwent fairly rapid growth, and peasant cash income increased. Second, it was manifested in the higher marketing rate. For example, per capita grain sales increased from 78 kg in 1985 to 105 kg in 1986, and the marketing rate rose from 18.2 percent to 23.5 percent. Per capita cash

income earned by the peasants increased from 351.5 yuan in 1985 to 388.1 yuan in 1986, an increase of 36.6 yuan. The percentage of cash income in net income reached 95.2 percent, an increase of 3.9 percent over the previous year. It can be seen that the increase in peasant income was achieved through the development of the rural commodity economy.

3. Peasant Consumption Levels Rose

Peasant consumption levels have been increasing steadily along with the rise in income. In terms of expenditure, the improvement in living standards is reflected in the increase in expenditure for everyday consumption. In 1986 this expenditure reached 333 yuan per capita, an increase of 11.9 percent over the previous year. Increases were across the board, in food, clothing, articles of everyday use, housing, and fuel. In terms of consumption pattern, the percentage of expenditure for housing and articles of everyday use increased, while food, clothing and fuel declined. In terms of purchases of consumer goods, purchases increased, and commodity-type consumption increased steadily. In 1986 peasant expenditures to purchase everyday consumer goods rose 14.4 percent, and commodity-type consumption rose 67.4 percent, showing that two-thirds of peasant consumption is purchased.

4. Rural Living Conditions Continue To Improve

At the end of 1986 peasant living space per capita reached 14.8 sq m, a 5.9-percent increase over the previous year. There was also a clear improvement in the quality of newly constructed homes; the percentage of brick, frame and reinforced concrete homes reached 97.5 percent. The area of each newly constructed home also increased, reaching 14.9 sq m. Cost per sq m rose 22.5 percent over 1985, to 54.5 yuan.

5. Increased Expenditure for Cultural Activities, Richer Spiritual Life

In 1986, per capita expenditure on cultural services was 8.8 yuan, a 16.3-percent increase over the year before, and faster than the 11.7-percent rise in expenditures for everyday consumer goods. This shows that peasants are not just paying attention to improving their material lifestyle but are also making greater demands for their spiritual life. This is also illustrated by the clear increase in expenditures to purchase educational and recreational items as well as books and magazines; the increases in 1985 and 1986 were 11.6 percent and 14 percent, respectively.

6. Increased Food Stocks, More Secure Life

In 1986 food production, sales, and stocks on hand all increased among peasant households. Per capita grain production by peasant households was 447 kg, an increase of 19 kg over 1985; sales increased 27 kg; and stocks on hand at year's end reached 318 kg, an increase of 12.5 kg.

7. Savings Deposits and Cash on Hand Increased

The significant increase in cash income caused an increase in cash on hand and savings deposits among peasant households. At the end of 1986 per capita savings deposits and cash on hand amounted to 199.8 yuan, an increase of 44 yuan, or 28.2 percent, over the previous year. Of this, savings deposits amounted to 72.6 yuan, an increase of 17.4 yuan, or 31.6 percent, and cash on hand amounted to 127.2 yuan, an increase of 25.6 yuan, or 25.3 percent.

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HUNAN OFFICIAL INTERVIEWED ON GRAIN PURCHASES

Changsha HUNAN RIBAO in Chinese 6 Mar 87 p 2

[Interview with Hunan Grain Bureau official by unnamed reporter: "Hunan Grain Bureau Answers Reporter's Questions on This Year's Grain and Oils Contractual Purchase Quotas"; date and place not given]

[Text] [Question] What reforms will grain purchases undergo this year?

[Answer] The central government recently indicated that the central task of the second phase of agricultural reform is to gradually reform the system of state monopoly over distribution and procurement of farm products and to establish and perfect a market system for farm products. Grain is the principal farm product as well as a necessity for the life of the people. It must be possible at all times to maintain a stable market supply. In terms of China's current grain supply and demand and future trends, for a considerable time to come it will remain necessary to continue implementing the "dual track system" of contractual quotas and market purchases. That is, some grain will be purchased by the state under contract according to stipulated prices; grain remaining after the contract is met can be marketed freely at market prices. Grain ordered under contract is what the peasants are obligated to sell to the state, and these contracts must be met. At the same time, the state will gradually reduce such quotas according to the growth of grain production and the financial situation, perfecting the contracts and expanding free marketing. At present, it is mainly perfecting the contractual quotas and genuinely decontrolling grain outside those quotas. In keeping with this spirit of reform by the central government, this year Hunan is again adjusting downward its contractual quotas for grain and oils, fleshing out the economic content of the contractual quotas, and eliminating grain purchase assignments for commissioned agents. After contractual quotas for grain and oils are met, negotiated purchasing and marketing of these items will be enthusiastically launched and the peasants allowed to increase their income by increasing production of grain and oils.

[Question] How will the contractual quotas for grain and oil be distributed this year?

[Answer] In 1987 Hunan's contractual quota for grain will be adjusted downward from last year's 4 billion kg (paddy) to 3.35 billion kg; the

contractual quota for edible oils will be adjusted downward from last year's 72,500 tons to 50,000 tons. The main principle behind this lowering of quotas is solving the problem of the excessive burden placed on the main commodity grain and oil producing regions, while at the same time giving equal consideration to some of the characteristics of grain-short areas and avoiding the use of proportional reductions. The downward distribution of quotas in all areas can be adjusted by referring to the 1982 base figures for procurement of surplus grain and current per capita grain stocks. Because of change in production conditions in the last few years and the significant shifts in population and area under cultivation, local governments should start with actual conditions and distribute the quotas according to the principle of reasonable burdens, so that the individual burdens and grain retained after purchasing are basically reasonable from village to village and household to household.

[Question] What economic measures will be taken this year to perfect the system of contractual grain purchase quotas?

[Answer] Primarily, linking grain quotas to advance purchase contracts for chemical fertilizers and diesel oil. For every 50 kg of paddy purchased under the grain quota, the state will supply 7.5 kg of standard fertilizer at a consolidated price and 1 kg of diesel oil at parity; it will allocate advance purchase funds at the rate of 20 percent of the original monopoly grain purchase price. Fertilizer and diesel oil coupons and advance purchase funds will be issued, no unit or individual may embezzle or misappropriate these coupons or funds.

[Question] What policy provisions are there for meeting the contractual purchase quota for grain and oils?

[Answer] 1. The contractual purchase quota for grain and oils is an economic contract as well as a state assignment and hence an obligation that must be fulfilled by the peasants. When peasant households take on a purchase quota, they must fulfill their contract scrupulously and ensure that they sell what is required of them.

2. The contractual purchase quota for grain and oils is issued down through channels by the various levels of government; in keeping with the principle of reasonable burdens, the contracts should reach the peasants before the busy spring plowing season. Grassroots grain departments distribute quotas through the village committees, signing contracts with each household for the amounts of grain and oils to be purchased.

3. Farm taxes will continue to be paid in kind, in grain, and will be included in the purchase quotas.

4. Once the grain and oils quotas have reached the households, purchases are not increased even if output goes up; generally speaking, purchases are not decreased if production falls. Grain and oils remaining after the peasant households have fulfilled their purchase quotas may be sold freely on the market.

HUNAN GRAIN PROBLEMS, SOLUTIONS DISCUSSED

Changsha HUNAN RIBAO in Chinese 5 Mar 87 p 4

[Article by Yang Fengjun [2799 7685 6511] and Zhang Chi [1728 1716]:
"Problems That Must Be Solved in Order To Develop Grain Production"]

[Text] Hunan's agricultural production was in good shape last year, with the amount of grain produced increasing slightly. However, due to the incompleteness of the current grain purchasing and marketing system and associated service facilities, and insufficient inputs in agriculture, the potential for increasing grain yields was definitely restricted, and reserve strength in grain production was inadequate. If effective measures are not taken, it will be difficult to achieve a steady increase in grain production, which will necessarily affect development of the entire rural commodity economy and the smooth implementation of reform of the economic system; it may even affect the national economy and the standard of living.

Agricultural production underwent significant growth after the 3d Plenum of the 11th CPC Central Committee; overall, grain production showed a growth trend. In 1983, some major grain-producing regions experienced what was called "trouble selling grain." By 1984 the situation had worsened, and some peasants began to reduce grain production. In the face of this situation, the central government took opportune measures, changing the state monopoly on grain purchases to contractual purchase quotas. A preliminary trial reform of the grain purchasing and marketing system was conducted, and the regulating role of market mechanisms on demand for grain was expanded. At the same time, peasant income was increased.

In 1985, the central government again issued resolutions on reform of the way in which grain is purchased, cutting back on contractual purchase quotas and expanding negotiated market purchases, so that the peasants would materially benefit from this. At the present time, while ensuring urban grain, military grain, and disaster-relief grain, we should cut back further on the scope of supply at parity and reduce the amount of grain purchased under state monopoly, so as to suitably slow down the pace of contractual grain purchasing.

Hunan has abundant grain resources, and we should find a way to convert this resource advantage to an economic advantage and reap even greater benefits from it. Grain depots are the hubs of grain purchasing and marketing; how they are operated and managed affects grain production, consumption and circulation. Therefore, the grain depot management system should first be reformed. Grain departments have long stored grain free of charge, with the costs borne by the state; this has meant state financial subsidies year after year, and grain depot management has lacked any vigor. To change this situation, a system of warehouse leasing can be implemented: the grain depots would handle such tasks as grain deposit, keeping, shipping, and inspection for the grain departments, and would keep track of monthly grain deliveries and shipments and average monthly storage costs; free storage of grain by grain departments with all costs borne by the state will be changed to a form of warehouse leasing for stored grain, with losses borne by the depot and profits shared, so that grain depots will become grain warehouses run like enterprises. This will not only increase the efficiency of grain storage, improve service, and strengthen management vigor, it will also reduce financial subsidies and increase the state's tax income. Second, a fixed supply-demand relationship that is interregional and interindustry should be established; priority consideration should be given to such areas as selection of product variety, quantity, and delivery, with prices set by the market. This will make it unnecessary for producing regions to worry about finding markets for their grain, and the marketing regions will not have to be concerned about finding sources of grain. Third, grain collection and distribution markets should be established between counties, between cities, and between grain-producing and non-grain-producing regions; market mechanisms should be used to regulate grain shortages and surpluses and develop the grain trade. Fourth, operational forms combining state-run, collective, and individual should be adopted to gradually create a diversified, multichannel commodity circulation network and fully exploit enthusiasm in all quarters.

Circulation is a sort of reservoir that must have things stored in it, and it must have a source of running water. Filling the granaries is dependent on development of grain production. If this is to be done, then agricultural inputs will have to be increased. In the last few years, the reduction in agricultural investment has meant that water works have not been maintained, basic farmland improvement has been weakened, and other services and facilities are wanting; there has even been a reduction in the area irrigated, land has been removed from cultivation, and reserve grain production strength is inadequate. During the Sixth 5-Year Plan, the trend in overall agricultural investment in Hunan was downward. In terms of investment in agricultural fixed assets, investment throughout the period accounted for only 3.7 percent of total social investment in fixed assets. Investment has declined almost to the levels of the period of national economic restoration. The 1985 investment in agricultural fixed assets in Hunan had dropped by around 28 percent from 1980, and by 38.3 percent from the all-time high in 1978; it was lower than the nationwide average. Although there was an increase in 1986 over 1985, it was only a small one. Insufficient agricultural investment has become a hidden danger in sustaining and stabilizing grain production, and it should receive close attention.

Water conservancy is the lifeblood of agriculture. Increasing inputs in agriculture first requires intensified construction of many aging irrigation works that have not been maintained for years and whose benefits have fallen off; new techniques should be applied to dealing with defective and dangerous works; irrigation channels that are silted up, leaking, or seeping should be repaired; electric-powered and mechanical irrigation and drainage equipment should be renovated and upgraded. Where conditions allow, small-scale power stations involving small investments and fast results should be run with pooled capital. This will eliminate the threat to one-fifth of Hunan's fields, which are subject to drought and waterlogging; it will also help alleviate the problems of heavy demand on sources of power for agricultural production and insufficient electricity. Second, creation of grain production bases should be reinforced. Planned, focused creation of such bases is extremely important for achieving a balance between grain-producing and grain-consuming regions and adjusting the sectoral structure of agriculture. Creation of grain production bases requires a systematic, rational plan, focused forces, and comprehensive control; advanced agricultural techniques should also be enthusiastically adopted, improved varieties popularized, and more chemical fertilizers applied, in order to establish high-yield grain fields. At the same time, grain production by specialized grain-growing households and villages should be supported as conditions warrant, guiding them toward specialized, commercialized grain production, so that the rural labor force can be shifted and the sectoral structure readjusted to exploit the benefits of a full-scale economy. Third, basic agricultural facilities must be complete. Except for a few commodity grain base counties, basic agricultural facilities in virtually all of Hunan's prefectures are weak; measures should be taken as quickly as possible to perfect the system for the dissemination of agricultural techniques and for the propagation of improved varieties. The most salient problem for agricultural research facilities is lack of funds; they should be given priority when expenses are allocated so that the antiquated research equipment and dire financial straits of Hunan's agricultural research facilities can be turned around. Research quality should continue to be improved. In addition, agricultural education should be vigorously developed to train more personnel who understand technology, are good at management, and have a grasp of the concept of a commodity economy, in order to serve agricultural production.

13322/13104

CSO: 4006/541

YUNNAN LAND MANAGEMENT MEASURES PROMULGATED

Kunming YUNNAN RIBAO in Chinese 4 Mar 87 pp 2-3

[Regulations: "Implementation Measures For Land Management in Yunnan Province (Draft) (Passed by the 26th Session of the Standing Committee of the Sixth Yunnan Provincial People's Congress Held on 16 February 1987)"]

[Text] ARTICLE 1. GUIDING PRINCIPLES

Section 1. These methods have been drafted to strengthen land management, preserve socialist public ownership of land, protect and develop land resources, provide for reasonable land utilization, and conscientiously preserve arable land, in accordance with the "Land Management Law of the People's Republic of China" (hereinafter called the "Land Management Law") and actual circumstances within this province.

Section 2. These methods shall be applied on all land within regions of Yunnan Province. All units and individuals shall carry out the "Land Management Law" and these methods when using land.

Section 3. Land is a precious resource of the state. Extreme concern for and reasonable use of land is a basic policy of China.

People's governments at all levels shall adopt comprehensive administrative, economic, and legal means for the unified management and use of land, the protection of arable land, the preservation of drainage and irrigation projects and facilities, soil improvement, upgrading of land potential, prevention of erosion, and curbs on activities which will lead to the abandonment or destruction of arable land. The unauthorized occupation of arable land and wasted use of land is strictly prohibited.

Section 4. People's Governments at levels above the county level shall establish land management departments, which shall have authority for the unified management of all land within the region of its administration.

County people's governments shall designate management officials to assume responsibility for the work of land management in prefectures (townships). They shall coordinate and assist local (township) people's governments in managing land within their administrative districts.

Section 5. The primary responsibilities of the land management departments of the people's governments above the county level shall be:

- (1) To popularize and conscientiously carry out national laws, regulations, principles, and policies regarding land management;
- (2) To take charge of inspection, registration, statistics, and certification of land within the district;
- (3) To take responsibility for the examination, reporting, and approval of state appropriation of and transfer of land within the administrative district;
- (4) To organize relevant departments to draft comprehensive plans for the development and utilization of land within the district;
- (5) To carry out supervision, inspection, and successful coordination with regard to the use of land within the district;
- (6) To prevent unauthorized occupation of arable land and waste of land, and investigate and dispatch cases of illegal land occupation between concerned departments, investigate, handle, and resolve land disputes;
- (7) To serve as centralized collector of various land management fees, and proceed with supervision and inspection of land use;
- (8) To participate in meetings on site selection and preliminary design of urban and rural construction projects, and participate in checking and accepting projects under construction;
- (9) To take charge of award and punishment activities.

ARTICLE 2. OWNERSHIP AND USE RIGHTS FOR LAND

Section 6. Land in urban areas shall belong to the people as a whole, that is to the state.

Land in rural villages and suburban areas, other than that which by law is deemed to belong to the state, shall belong to collectives; housing sites, small private plots, and hilly land allotted for private use shall belong to collectives.

Section 7. Land owned by the people as a whole or collectives may, as designated by law, be turned over to the use of units and individuals. Units and individuals using land have the duty for its protection, management, and rational use.

Section 8. Collectively owned land which by law belongs to rural agricultural collectives shall be operated and managed by agricultural collective economic organizations such as rural agricultural production cooperatives or rural agricultural committees; those which already belong to rural (township)

peasant collective economic organizations may belong to rural (township) agricultural peasant collectives.

Land belonging to rural peasant collectives which is already owned by more than two agricultural collective economic organizations within a village may be owned by agricultural collectives of each of the said agricultural collective economic organizations.

Section 9. Collectively owned land shall be registered in the records of the county-level people's government land management department, which shall inspect and issue a "Land Ownership Certificate" which sets forth rights of ownership.

State-owned land used by units under public ownership or collectives or individuals in accordance with law shall be registered in the records of land management departments of people's governments at the county level or above, which shall inspect and issue "Land Use Certificates" which set forth their use rights.

Change in land use or ownership rights in accordance with law must be done through land management department procedures for registering changes in rights, and surrender of certificates for exchange.

Section 10. Rights of land ownership and use shall be accorded the protection of law. No unit or individual shall infringe upon them. Land owned by the public or collectives (hereinafter including land and hills individually held, assigned lands, and homesites) may not be purchased or sold, leased, or transferred in violation of law by any other means.

Land owned by collectives which is used by villagers, as well as state-owned lands used by units and individuals shall be so used only in accordance with regulations, and may not be modified at will.

Section 11. Disputes over ownership or use of land shall be resolved by consultation between the parties; where such consultation is not successful, the following procedures shall be used to handle such disputes:

(1) Where the parties to the dispute are both from a single village (township), the village (township) people's government shall handle the dispute;

(2) Where the parties to the dispute are not from a single village (township), but are from a single county (city), the land management department in that county (city) shall handle the dispute;

(3) Where the parties to the dispute are not from a single county (city), but are from a single locality, prefecture, or municipality, the relevant county (city) land management departments shall consult with one another to handle the dispute. Where such consultation is unsuccessful, the dispute shall be referred to the locality, prefecture, or municipal land management department for resolution;

(4) Where the parties to the dispute are not from a single locality, prefecture, or municipality, the land management departments in the localities, prefectures, and municipalities concerned shall resolve the dispute through consultation. Where such consultation is unsuccessful, the dispute shall be referred to the provincial land management department for handling.

Parties to a dispute in disagreement with how the dispute was handled or decided by the relevant people's government or land management department may, within 30 days of receiving notice of such handling and decision, bring suit in the People's Court.

Prior to resolution of any dispute concerning ownership rights or use rights in land, no party shall change the condition of the land or lay waste to any fixtures thereon.

ARTICLE 3. LAND USE AND LAND PROTECTION

Section 12. Land management departments of the people's government at the provincial level and above shall establish land inspection and statistics systems to formulate general land use plans in coordination with the relevant department. Such general land use plans shall accord with state land planning. Urban planning should be coordinated with general land-use plans. Within urban planning districts, land use should be in accord with urban planning.

Within protected rural or lake districts, land use should be in accord with comprehensive development and use plans for such districts.

All levels of farm, forestry, animal husbandry, fishery, and water conservancy management units shall formulate land use plans for internal use based upon local conditions in accordance with the local general land use plans.

Section 13. All land use for construction must abide by the principles of economic reasonableness and special concern for arable land, and shall improve the efficiency of land use. Uncultivated hills and tracts may be used; arable land may not be so used. Inferior land may be used; quality farm land may not.

Land in scenic tourist districts, water resource preservation districts, and natural preservation districts shall be strictly protected and may not be acquired for use under normal circumstances.

Provincial-level people's governments shall demarcate preservation districts for sites producing famous, unique, or superior local agricultural products and for vegetables in suburban districts, which shall be submitted to the prefecture or municipal people's government for approval. Land in preservation districts so demarcated shall not be acquired for use under normal circumstances; where such acquisition is necessary, the land use department must establish a new site.

Section 14. Where a unit using land has received approval for acquisition and use of arable land or other valuable land and has not used it within 1 year, fourfold the annual output value of the land shall be collected as an abandonment fee. Where arable land assigned to be worked by collectives or individuals has not been cultivated for 1 year, twofold the annual output value of the land shall be collected as an abandonment fee. Where such land has remained uncultivated for a period of 2 years, fourfold the annual output value of the land shall be collected as an abandonment fee and use rights for the land shall revert to the production cooperative.

Section 15. People's governments at the county level shall be liable for unified management and control of development of all state-owned uncultivated hills and lands within their jurisdiction; once land has been exploited for farming, forestry, or animal husbandry production, the county-level people's government shall arrange for its use in a unified fashion.

Section 16. Where land has been approved for mining, earth removal, sand excavation, or brick and tile manufacture and such use is completed, the unit or individual using the land shall be liable for rehabilitating the land and returning it to productive use.

Section 17. Land use for construction must be in accordance with relevant state regulations on environmental protection and water and soil protection. Environmental pollution and water and soil erosion shall be prevented. Where environmental pollution or soil and water erosion results, it shall be handled as set forth in relevant law.

Land use for construction requiring the cutting down of forests shall be handled in accordance with the "Forestry Law" and its implementing regulations.

Section 18. Tombs and public cemeteries should use uncultivated hills and lands and must not destroy forests. The use of arable lands and forests for the construction of tombs is prohibited.

Section 19. Plans for the use of land for construction in cities and villages (townships) should be linked to renewal of the city or village (township). Existing residential land and open spaces should be fully used. Where village (township) construction is not planned, the use of arable land is never to be permitted.

Section 20. Pursuant to Section 19 of the "Land Management Law" concerning reversion of land-use rights on state-owned land, such land should, in accordance with the limits of the law's provisions, be apportioned for value to units qualified to use the land or temporarily turned over to farmers for cultivation. However, the construction of permanent buildings or planting of multiyear crops on such land is not permitted. When such land is needed for state construction, it shall revert to the state with no conditions attached.

ARTICLE 4. LAND USE FOR STATE CONSTRUCTION

Section 21. Where the state needs to acquire and use collectively owned land or use state-owned land for the building of economic, cultural, or national defense construction and public works, approval must be granted and the project must be formally listed as one within state-fixed capital investment plans. Alternatively, where a construction project has been approved by the state, the constructing unit may apply to use the land.

The land management department of the county-level people's government shall have overall liability for carrying out land acquisition procedures for acquisition and use of land for state construction. It is prohibited for any unit or individual to consult directly with a production cooperative for the acquisition, purchase, lease, or any other form of occupation of land.

Where land use has been approved, the constructing unit may not, without authorization, change that use or reassign the land. Where such a change is necessary, the unit must go through a new approval procedure. Where land is used and such approval has not yet been granted, there shall be no unauthorized occupation of land for construction.

Where land is acquired for use for state construction, the unit from which the land has been acquired shall accede to the state's needs, and may not obstruct them.

Section 22. Procedures for acquisition and use of land:

(1) Application for an address. A unit using land for construction must be in possession of a planning appointment document issued by the primary department of the State Council, the people's government at the county level or above, or other supervisory department or some other form of written approval and shall submit an application for land use to the land management department of the people's government at the county level or higher in which the land is located. After examination and approval the unit may go forward to select a site. Within the boundaries of urban planning, site selection shall be done by the land management department together with urban planning departments. Once a site has been fixed for construction it may be surveyed immediately and preliminary design may be carried out.

(2) The area of the land set forth for use shall be agreed upon in writing. Upon selection of a construction site, the constructing unit shall take its approved design proposal certificate, preliminary design documents (including an overall plot map and terrain map), and materials concerning water flow and management of effluents to the land management department of the county-level people's government where the land is located for approval of the area of land to be used. After inspection and decision by the land management department in favor of the land use, the unit whose land is being acquired shall enter into a written agreement on compensation, demolition, and relocation in accordance with regulations. The unit using the land shall further fill out a "Land Use Report."

(3) Land transfer. Upon approval of the land acquisition report, as set forth in the documents and construction schedule, the land management department in the place where the construction project is located shall

transfer the land in one parcel or in installments, and shall oversee the timely transfer of the land from the unit from which it has been acquired. Upon transfer of the land, the unit using the land shall immediately file a "Land Use Certificate" with the local land management department.

Section 23. Limits of inspection and approval for acquisition and use of land:

(1) Acquisition and use of arable land of less than 3 mu (or vegetable plots of less than 1 mu), and other lands of less than 10 mu in area shall be approved by the county-level people's government which shall report such for the record to the prefecture or municipal people's government. In no case shall the county-level people's government approve use of arable or other lands in excess of 10 mu in one application.

(2) Acquisition and use of arable land of less than 5 mu (or vegetable plots of less than 2 mu), or other lands of less than 20 mu may be approved by the prefecture or municipal people's government with a report to the provincial people's government for the record. In no case shall the prefecture or municipal people's government approve the acquisition and use of arable or other lands in excess of 20 mu in area in one application.

(3) Acquisition and use of arable land of more than 5 mu but less than 1,000 mu and of other lands of more than 20 mu but less than 2,000 mu in area shall be approved by the provincial people's government. In no case shall the provincial people's government approve acquisition and use of arable or other lands whose total area exceeds 2,000 mu in any one application.

(4) Acquisition and use of arable land in excess of 1,000 mu and other lands in excess of 2,000 mu shall be reported to the State Council for approval in accordance with Section 25 of the "Land Management Law."

Section 24. The land needed for a single construction project should be applied for and approved based upon the design as a whole and not by turning large parcels into small ones. Construction projects to be built in stages may acquire the land in stages. Land needed for the building of trunk rail and highway lines may be divided at county lines for the purposes of applying for land and carrying out land acquisition procedures. Early acquisition of land which remains unused, inadequate acquisition of land which is then overused, and acquisition of land which is not used are all strictly prohibited.

In special circumstances, such as emergencies, fires, or pressing military contingencies where land is needed quickly, and where the land use is temporary, it can be used at once and then reported in a timely fashion to the county-level people's government. Where the land use is of a permanent nature, upon approval by the county-level people's government, the land may be first used, and then proceed with acquisition procedures within the limits of examination and approval as set forth.

Section 25. Standards for compensation for land acquisition and use:

(1) For acquisition and use of vegetable plots and submerged fields, sixfold the average annual output value over the previous 3 years shall be paid (hereinafter the same). Fivefold the output value shall be paid for land producing cash crops, gardens, fish ponds, lotus ponds, and reed ponds. Fourfold the value shall be paid for lei xiang tian [7191 0742 3944], nonirrigated farmland, and cash forest plans. Threefold the value shall be paid for lun ge tian [6544 2957 0966], bamboo groves, grass lands, and grazing lands.

(2) Acquisition and use of newly opened land which has been cultivated for at least 3 years shall be compensated for at the same rate as nonirrigated farmland. Where such land has been cultivated for less than 3 years, it shall be compensated for at threefold the annual output value of the previous year.

(3) Where land acquired for use has standing young crops, under normal circumstances such young crops will not be dug up. Where it is necessary to dig up such crops, this shall be reported during the application proceedings for the use of land for construction; and upon approval the crops may be dug up without regard to their maturity. Compensation shall be for the actual value of the crop for that season. Where the crops are not removed, payment of compensation shall be unnecessary.

(4) Where it is necessary to remove dwellings upon acquired land, under normal circumstances the acquiring unit shall construct dwellings equal in number and quality. Alternatively, the original dwelling owner may use the materials from the old building to build the new one, in which case the acquiring unit shall provide a specified level of compensation. This compensation (including the costs of labor and supplementary materials) should be specifically negotiated based upon the local costs of labor and materials and the type of dwelling.

(5) The prefecture or municipal people's government shall set forth standards of compensation for tombs, scattered trees (including fruit trees), and costs of demolition and tree cutting.

(6) Standards of compensation for the transfer of state-owned forests and the acquisition and transfer of collectively owned forests for state construction shall be in accordance with the provisions of the "Forestry Law" and its implementing regulations.

(7) Standards for compensation for transfer of land belonging to state-run farms, forests, animal husbandry, and fisheries for state construction shall be in accordance with this Section (parts 1 through 4).

(8) Where land must be acquired and used for state construction of large and medium-size water conservancy and hydroelectric projects, the compensation standards and relocation of emigrants shall be in accordance with the relevant state regulations.

(9) Threshing and drying production sites on collective farms which were formerly underwater fields shall be compensated for at the level of submerged fields. For land which was originally nonirrigated, it should be compensated for in accordance with standards for nonirrigated farmland. Costs of threshing and drying facilities shall be compensated for at a discounted rate.

No compensation is to be paid for acquisition and use of land with no economic value.

The annual output value of arable land shall be estimated from the annual output value of arable land set by the county-level land management department of the people's government in accordance with annual statistics for the average of the most recent 3-year period (including all crops and agricultural byproducts). Alternatively, annual output can be set for different districts, multiplied by the proportional price for that year and the state purchase price (or, where there is no proportional price or purchase price for farm products, the prevailing trading price in local markets).

Section 26. Standard expenses for relocation assistance in connection with acquisition and use of land:

(1) Where cultivated land acquired amounts to greater than 1 mu per capita for a production cooperative (hereinafter including privately held land) or for vegetable plots where the land acquired exceeds 0.5 mu per capita, the fee for relocation assistance for each farm person shall be twofold the annual output value of 1 mu of cultivated land.

(2) Where the land acquired amounts to less than 1 mu of cultivated land per capita in the production cooperative, or for vegetables plots less than 0.5 mu per capita, the fee for relocation assistance for each farm person shall be threefold the annual output value of each mu of cultivated land. However, the fee for relocation assistance per mu of cultivated land or vegetable plot shall not exceed a maximum of 10-fold its annual output value.

(3) The fee for relocation assistance for the acquisition of garden plots, fishponds, and lotus ponds shall be fivefold the annual output value per mu of the aforesaid plot or pond.

(4) The fee for relocation assistance or transfer of agricultural, forestry, animal husbandry, or fisheries land to the state for state construction shall be threefold the annual output value per mu of the said land.

There shall be no fee for relocation assistance for the acquisition and use of residential, forested, or newly cultivated wilderness lands of collectives or for state-owned lands used by other units or individuals.

The figure for farm population requiring relocation (not to include households moving to the land subsequent to the beginning of acquisition discussions) shall be calculated as the amount of cultivated land being acquired and used divided by the amount of cultivated land per capita prior to the acquisition.

Section 27. Compensation expenses and relocation assistance expenses paid pursuant to Sections 25 and 26 of these regulations which still fail to uphold the standards of living of the masses or where the acquisition of land has already been completed or has been basically completed, upon approval by the provincial people's government, may be augmented appropriately. However, the total of land compensation fees and relocation assistance fees may not exceed 20-fold the annual output value of the land to be acquired and used.

Section 28. The various compensation and relocation assistance fees, other than those for fixtures owned by individuals upon the land or for crops in the ground to the individual owning them shall be used by the unit whose land has been acquired to develop production and for living assistance for the relocation of persons employed and those unable to be employed which are a surplus labor force brought about by the acquisition and use of the land. Information concerning how these funds are used shall be collected and reported up through the various levels of land management departments; and they may not be diverted to other uses or taken over by any unit or individual.

Section 29. Wherever vegetable plots in the inner suburbs of urban areas are acquired for use, funds shall be paid in for the development and establishment of new vegetable plots. These funds shall be within the unified control of prefectural, municipal or county people's governments which shall be used only for this purpose. For each mu of land in the Guandu and Xishan District of the city of Kunming, 10,000 yuan shall be paid in. For each mu of land acquired where district administrative offices of the people's government are located within other counties of Kunming City, in the cities of Dongchuan and Kaiyuan, and autonomous prefectures, a fee of 7,000 yuan will be paid. In all other locations of county (municipal) people's governments a fee of 5,000 yuan will be paid.

Where cultivated land is to be occupied for nonagricultural construction, a land-use fee, use tax, and cultivated land restoration fund contribution shall be paid.

Section 30. Methods for handling excess labor force created by acquisition by of land:

(1) Upon acquisition of land where the amount acquired exceeds 0.5 mu per capita for production cooperatives or 0.3 mu per capita for vegetable cooperatives, the cooperative shall itself make arrangements for surpluses of labor caused by the acquisition; upon acquisition of land which had been assigned to cooperative members, the village (township) people's government shall be responsible for organizational adjustments.

(2) Upon acquisition of land where the amount of land is less than 0.5 mu per capita for production cooperatives or 0.3 mu per capita for vegetable cooperatives, surplus labor shall be relocated through development of farm and byproduct production and through the creation of village (township) rural enterprises. Where such relocation is not complete, the county level people's government land management department shall, together with labor personnel departments, organize the units using the land together with other relevant

units to bring qualified personnel into the units occupying the land or into other units under public ownership or collective ownership, and shall furthermore transfer an appropriate amount of relocation assistance funds to the unit which is accepting such labor force.

(3) Where the acquisition of land of a production cooperative has been completed, upon approval by the provincial people's government, households originally agricultural may transform into nonagricultural households. Arrangements shall be made for the excess labor from such households to be distributed among the units using the land or to employment in units owned publicly or by collectives by the local labor personnel department. Assets originally belonging to collectives and income from compensation payments and relocation assistance payments shall be handled by the county-level people's government and relevant village (township) cooperatives, to be used for the development of production by the masses in production cooperatives whose land has been purchased, to relocate labor force, and for living assistance for persons who cannot be employed. Such funds may not be distributed privately or expropriated.

(4) Persons employed by units using the land and by units under public ownership or collective ownership shall have their wages treated commensurately in accordance with current state regulation.

(5) In urban suburbs, where land belonging to production cooperatives is earmarked by approved planning for purchase in the near term, the methods in parts 3 and 4 of the first provision of this section shall apply and the shift from farm to nonfarm and relocation of labor force shall be done proportionately with the gradual amount of land acquired and the makeup of the population.

Section 31. Where construction projects shall temporarily occupy land, all efforts should be taken to make arrangements within the scope of the land acquisition to ascertain what other land may also be temporarily occupied; and the constructing units shall support design departments in providing plot maps for the total amount of land to be temporarily occupied which shall be submitted for procedural review along with the Construction Land Use Report. The period for use of such land shall not exceed the period of the construction project.

Compensation for temporary use of land shall be three times the average yearly output value per year for agricultural land, but there shall be no such compensation for nonagricultural land. No permanent structures shall be built upon temporarily used land. Once the period of use has expired, the unit using the land must return it to the owner in a timely fashion. In the case of agricultural land, the unit shall also return the land to its original productive state.

Section 32. Wherever approval has been granted for the acquisition and use of collective cultivated land, there should be a real abatement in the agricultural tax based upon the real basis of the land area acquired. When land is acquired for use and the major spring crops have not been harvested, the abatement should be for the entire year. Where the major spring crop has

been harvested, the abatement should be for the subsequent year. Where the acquirement of land has a major impact, the farm tax on the remaining land of production cooperatives which are unable to attain an output of grain for farm consumption equal to the annual value over the last 3 years, the amount of tax shall be reduced proportionately. The grain shortfall shall be sold back by the rural township at a fixed price to resolve this problem. The aforementioned abatements in the agricultural tax shall be made at the administrative level governing construction projects and shall further be reported to higher levels in the annual report.

Section 33. Where urban collectively owned units are using land for construction, it shall be deemed the same as if the state were acquiring and using the land; and it shall be treated the same for the purposes of these regulations.

Where joint enterprises between enterprises under public ownership or urban collectively owned enterprises together with rural economic organizations which pool investment require the use of land owned by rural collectives, the construction project must be filed for approval in accordance with the limits of its construction management authority and, furthermore, procedures for the examination and approval of land use shall be within the limits set forth by these methods. Where the use of land has received approval, acquisition and use may proceed in accordance with state construction regulations for land acquisition and use. Furthermore, the agricultural collective economic organization may by agreement consider the right to use the land a condition for joint operations.

Section 34. Land management departments may collect a one-time land management fee from units using land based upon the area for various land categories.

Section 35. Where farmers entering cities to engage in commerce or services have a need to use land owned by rural collectives, they must hold documentation issued by the local village (township) people's government and written approval by the county-level people's government and written approval by the county-level people's government industry and commerce administrative management agency. They shall in accordance with these methods apply to the county-level people's government land management department to process their application in accordance with these methods. Land for which acquisition and use has been approved shall be the property of the state.

Section 36. Use of land for construction by the Chinese People's Liberation Army shall be done in accordance with the land acquisition procedures of the "Land Management Law" and these methods.

Section 37. Where issues still remain concerning past land acquisitions, the regulations in effect at the time of the acquisition shall govern.

ARTICLE 5. USE OF LAND FOR VILLAGE (TOWNSHIP) RURAL CONSTRUCTION

Section 38. Systems for application, inspection, approval, registration, and certification shall be implemented for all land which is used for rural nonagricultural construction and individual residential construction. For each of the above, the county-level people's government land management department shall issue a "Collective Land Use Permit" or "Residential Land Use Permit."

Section 39. Plans for village (township) rural construction shall be drafted in accordance with the principles of suiting local conditions, reasonable layout, conservation in land use, and protection of the environment.

Section 40. Construction of residences for rural inhabitants should use land which was originally residential or vacant. Use of cultivated land for such purposes shall be examined by the village-level people's government and reported to the county-level people's government land management department for approval. For use of land which was originally residential, vacant land within the village, or other noncultivated land, approval shall be by the village-level people's government with notice to the county land management department for the record.

Section 41. Standards for the construction of residences for rural inhabitants:

(1) Land occupation in urban and inner suburban areas not to exceed 18 square meters per capita nor 80 square meters per household;

(2) In flat land areas not to exceed 20 square meters per capita nor 100 square meters per household;

(3) Standards for use of land for residential construction for rural inhabitants of hilly and semihilly regions shall be set by the prefectural or municipal people's government and submitted to the provincial people's government for approval.

No housing resident whose original housing is up to these standards may reapply for residential land, sell or lease that residence, nor be permitted to apply for more residential land.

Residential land which has been vacated by its residents whose dwelling has been demolished must return the land to a production cooperative within a specified time and may not transfer the land privately.

Where residential land has been approved for use and is not used within two years, it shall revert to the approving department and the "Residential Land Use Permit" shall be revoked.

Section 42. Where relatives of villagers, retired cadres, or staff and workers coming to a village require residential land to build homes, the provisions of these methods shall be enforced.

Use of land for home construction for overseas Chinese, and compatriots from Taiwan or Hong Kong who return to the village to establish residence shall be appropriately relaxed from the regulations of Section 42 of these methods.

Where cultivated land is occupied for residential construction in accordance with the above two clauses, compensation shall be paid in accordance with the compensation standards for acquisition and use of land for state construction.

Section 43. Where excess residential land from the renewal of old villages and establishment of new villages is used for agricultural production, a 5-year exemption from the agricultural tax shall be granted.

Section 44. Rural township enterprises which need to use land or construction must hold a Planning Assignment Certificate approved by the county or higher level people's government or other approval document, and shall apply to the county-level people's government land management department, which shall deal with the application in accordance with Section 23 of these methods. Standards for compensation and methods of relocation shall be formulated by the provincial people's government.

Rural township enterprises using land for construction must be strictly controlled as to type of enterprise and scope of operations. Land used for production and operations must not be made available for expansion of residential property.

Section 45. Where land is used for village (township) rural nonagricultural construction, the state shall not abate the agricultural tax. The agricultural tax for units whose land has been used shall be determined autonomously by the village (township).

Section 46. Where a state-run agricultural, forestry, animal husbandry, fishery, or water conservancy management unit is using its own land for nonagricultural construction (including construction of dwellings for staff and workers), the relevant provisions of these methods shall be followed.

Section 47. A land management fee shall be paid for use of land for village (township) rural construction. This fee shall be exempted for the construction of schools and for housing of the elderly, members of a revolutionary martyr's family, or handicapped military personnel.

ARTICLE 6. AWARDS AND FINES

Section 48. Units and individuals who have made a significant contribution toward the conscientious implementation of the "Land Management Law" and these methods toward protecting and developing land resources, the rational utilization of land, and the progress of relevant scientific research, shall be granted recognition and awards by the various levels of the people's government.

Section 49. Units and individuals which make a significant contribution toward resisting, preventing, exposing, or reporting to authorities illegal

occupation of land shall be granted recognition and awards by the county-level or higher people's government land management department.

Section 50. Units under the ownership of the public or the ownership of urban collectives, village (township) rural enterprises, rural residents, and residents of urban nonagricultural households (including state workers) who illegally occupy land either without approval or by obtaining approval through fraudulent methods or who exceed the amounts of land approved shall be forced to return the land which they have illegally occupied. Newly constructed buildings and other facilities on the illegally occupied land shall be dismantled or confiscated within a specified period of time. Moreover, in varying circumstances, the following fines or administrative sanctions may be imposed upon the responsible person within the unit or those directly liable:

(1) Units under public ownership or collective ownership which illegally occupy land shall be fined 10,000 to 20,000 yuan per mu;

(2) Rural township enterprises which illegally occupy land shall be fined from 8,000 to 15,000 yuan per mu;

(3) Urban nonagricultural household residents (including state workers) who illegally occupy land shall be fined 1,000 to 5,000 yuan per mu;

(4) Rural residents who illegally occupy land shall be fined from 500 to 1,000 yuan per mu;

(5) Leading personnel in units which illegally occupy land and state workers who use their professional position to occupy land for construction of dwellings shall be given administrative sanctions by their unit or higher level agency.

Section 51. Where land is purchased and sold, leased, or transferred by any other illegal means, in addition to confiscation of any profits, dismantling or confiscation of any buildings or other facilities on the illegally occupied land within a specified period, sanctions and fines in accordance with Section 50 of these methods shall be imposed upon the parties or those liable.

Land which has been purchased and sold, leased, or transferred in any other illegal manner, shall revert from its original collective ownership to ownership by the state. Where the land was originally owned by the state, the land management department shall take back the use rights from units originally using the land and shall revoke its "Land Use Permit."

Section 52. Where a unit or individual without authority to approve the acquisition or use of land illegally approves occupation of land or illegally approves occupation of land in excess of its authority to do so, the approval documents shall be without effect. The unit manager or individual who illegally approves occupation of land shall be fined from 100 to 500 yuan and shall be given administrative sanction by the unit or higher level agency.

Where a responsible individual in a unit has exceeded authority on a land approval and the land management department knowingly does not report such and

does not protest, sanctions shall be imposed in accordance with the previous clause on those responsible.

Section 53. The land management department shall instruct units which have received compensation and relocation assistance payments for acquisition of land which is illegally occupied to return such compensation within a specified period of time, and to pay a fine of between 10 and 30 percent of the payment. Persons in responsible position shall be given administrative sanction by their unit or higher level agency. Illegal occupation of land by an individual shall be treated as a case of corruption.

Section 54. The alteration or destruction of Land Management Certificates, materials, or maps by units or individuals shall result in revocation of their "Land Use Permits" by the land management department and fines. Units shall be fined from 300 to 500 yuan; individuals shall be fined 50 to 200 yuan.

Section 55. Construction units which temporarily use land and do not return the land upon completion of the temporary period shall be instructed by the land management department to return the land within a specified period. Land use rights will be revoked and fines will be levied. The fine for agricultural land shall be from two- to fivefold the annual output value per mu. For nonagricultural land, the fine will be from 300 to 500 yuan.

Section 56. Where removal of soil or sand from state-owned or collectively owned lands or in excess of the scope of approval of such removal results in waste, the land management department shall order its restoration within a specified period. In the case of agricultural land, it shall be restored to productive condition and a fine shall be imposed. The fine for agricultural land shall amount to two- to fivefold the annual output of the land before the waste occurred. In the case of nonagricultural land the fine shall be 300 to 500 yuan per mu.

Section 57. Where fines must be imposed on units or individuals for violation of the "Land Management Law" and these methods, it shall be determined by the county or higher level land management department. A party upon which a fine has been imposed, when notified of such by a land management department, shall make payment of the fine at the location specified within a specific period of time.

Fines paid by enterprises, institutional units, and administrative agencies shall be withheld from enterprise assets or profits or paid out of the excess of awards or fees collected for assignments and shall not be added to production costs or basic construction investment, nor shall it be paid from operating or administrative revenues. All levels of banking departments shall supervise such payments.

Whenever land management departments receive payments for fines, they should write a receipt.

All fines shall be paid into the local treasury.

Section 58. Where a party is in disagreement with the decision of the land management department on a fine, it may within 30 days of receipt of notice of such fine, bring suit in the People's Court. If the party does not bring suit and does not make payment within the specified period, the land management department which has made the fine determination may apply to the People's Court for compulsory enforcement of its decision.

Section 59. In cases where a state worker in the course of land management work acts fraudulently or negligently in the course of duty, makes or accepts bribes, or engages in extortion or blackmail and mitigation exists, the unit in which the person is located shall, in addition to confiscating the illgotten gain, impose administrative sanctions; where such activity constitutes criminal behavior, criminal liability shall be imposed by law enforcement agencies in accordance with the provisions of the "Criminal Law."

Section 60. Where in the course of modifying ownership or use rights for land or in the resolution of disputes concerning ownership or use of land graft or theft of state- and collectively-owned assets, incitement of the masses, or obstruction of state construction occurs which does not meet the threshold of criminal sanctions, sanctions shall be imposed by public security agencies in accordance with the "Regulations on Punishment for the Maintenance of Public Order in the People's Republic of China" and illegal profits shall be confiscated.

Where such activity constitutes criminal behavior, law enforcement agencies shall investigate and affix criminal liability in accordance with the relevant provisions of the "Criminal Law."

ARTICLE 7. APPENDIX

Section 61. Land management methods for Chinese-foreign equity and cooperative joint ventures and foreign-owned enterprises shall be enforced in accordance with the relevant regulations of the State Council and the Yunnan Provincial People's Government.

Section 62. Land acquisition payments as defined in these methods shall include: land compensation payments, relocation assistance payments, fixture compensation payments, young crop compensation payments, and payments for dismantling and removing.

Section 63. The word "above" as defined in these methods shall include the number itself. The word "below" as defined shall not include the number itself.

Section 64. Methods of collection, management, and use of land management fees, land restoration funds, use taxes, and use fees shall be formulated by the Yunnan People's Government.

Section 65. All Land Management Certificates, materials, and maps shall be in standardized written form. Printing of such forms shall be under the unified control of the Yunnan Land Management Department.

Section 66. Interpretation of these methods shall be the responsibility of the Yunnan Provincial People's Government Land Management Department.

Section 67. These methods shall become effective on the day of promulgation. The "Yunnan Provincial Methods for Implementing the State Council's Rules for Managing the Use of Land for Rural Housing Construction" which were passed on 16 June 1982 at the 14th session of the Fifth Provincial People's Congress are hereby superseded.

12303

CSO: 4006/565

BRIEFS

SHANXI FERTILIZER PRICES--The concerned Shanxi departments have determined that beginning in January the original ex works and sales prices of ammonium bicarbonate and ordinary calcium superphosphate will be restored; at the same time, seasonal price differences will be applied to ammonium bicarbonate. Specific prices are as follows: 1) The ex works price of ammonium bicarbonate will be uniformly restored to the original ex works price, that is, 165 yuan per ton for Grade 1 and 160 yuan per ton for Grade 2. In the peak and off seasons the above prices may be increased or lowered by a margin of 10 percent, to be specifically determined by the concerned departments according to local conditions. The sales price may be determined by the concerned local departments on the basis of the ex works price and according to transport conditions, allowing a slight profit. 2) For ordinary calcium superphosphate produced by the Taiyuan Phosphate Fertilizer Plant, the ex works and sales prices after the 1984 state adjustment will be restored. That is, 141 yuan per ton for the ex works price, and 190 yuan per ton for the sales price. The same prices will be applied to the same grades of ordinary calcium superphosphate produced by other, smaller phosphate plants. [By Zhang Chuan [1728 1557]] [Text] [Taiyuan SHANXI NONGMIN in Chinese 12 Feb 87 p 2] 13322/12851

CSO: 4006/534

FUJIAN STRESSES PARTY CONSOLIDATION

Fuzhou FUJIAN RIBAO in Chinese 31 Dec 86 p 1

[Article: "Fujian Plans Last-Stage Party Consolidation Work"]

[Text] A Fujian provincial party consolidation work conference was convened 26-29 December. The conference called for an earnest effort in the last stage of party consolidation work and an overall completion of the task.

Jia Qinglin [6328 1987 2651], deputy provincial party secretary and chief of party consolidation guidance group, Zhang Yumin [1728 3254 3046] and Gao Hu [7559 5170], provincial party standing committee members and assistant leaders of the party consolidation guidance group, and Sun Ping [1327 5493], chief of the Central Commission for Guiding Party Consolidation investigation group, spoke at the meeting.

The conference pointed out the necessity of earnestly carrying out the last stage of party consolidation work at the village level. First, the small number of serious cases of party cadres using power for private gain and violating law and discipline must be earnestly investigated and prosecuted. Some areas have failed to expose fully, investigate and prosecute vigorously the "two types of serious cases." Effective measures must be adopted to solve them. They must boldly expose, strictly investigate and prosecute these cases; they must implement the investigation and prosecution responsibility system, pay close attention to the cases, and guard against leniency, favoritism, "connections," laxness and cover-up. Inventories of rural assets must be continued, and major important cases handled earnestly. 2. Organizational handling and member registration must be earnestly pursued. Party administration must be strict, and members violating discipline punished or expelled according to the gravity of their offense. Membership criteria must be upheld, and members failing to fulfill membership requirements must, according to the circumstances, be turned down, have their registration postponed or advised to resign. Only in this way will the organization be purified, the party's image among the masses improved, and party prestige enhanced. 3. Basic level leading groups must be properly built, and party branches further readjusted and strengthened. Special attention must be given to the transformation of backward party branches. County and township party committees must assign competent cadres to help these branches solve their problems. They must produce marked results before the conclusion of party consolidation. They must boldly promote

exemplary party members with a strong party spirit, good work style, who are in their prime, pioneering spirit, and have the ability to lead the masses to work hard and get rich. They must do a good job in the selection of party branch secretaries. They must further readjust party organization, build and strengthen inner-party democracy, regularize and systematize inner-party life, and continuously improve the quality of party principles as well as the ideological and political qualities of organizational life, while strengthening basic level rural political power, properly building villagers' committees, helping them strengthen people's mediation and public security work committees, and gradually putting to order party and government relations. 4. On the basis of strengthening their leading groups, all party branches must, together with the villagers' committees, revise plans for building the two civilizations in their own villages. During Spring Festival, they must launch extensive activities to change the prevailing habits and customs. Besides serving as models, basic level cadres must come forward courageously and step in to prevent evil practices. 5. Makeup work on party consolidation for members absent from their own areas must be properly performed.

The conference stressed three criteria for party consolidation at the village level: 1. Build party branch leading groups with the ability to earnestly implement party principles and policies, lead the masses to get rich together, and promote the two civilizations; 2. Earnestly handle cases involving party cadres who use power for private gain, violate law and discipline, and break away from the masses, and the individuals who commit these abuses; 3. Conduct collective education of party members on party spirit, discipline and purpose and teach them the way to be members in fact as well as in name, to serve the people heart and soul in the new historical period, to observe law and discipline, and to lead the masses to get rich together. Whether they have concluded party consolidation or are in the course of doing so, all units must fulfill the three criteria, make up any and all deficiencies, and guard against perfunctoriness.

The conference stressed that in units of the township level and above, it is necessary to do good work in solving problems left over from party consolidation, work in sorting out the "three categories of undesirables," and in summing up party consolidation work. Problems remaining from party consolidation must be handled at the respective level, each one fulfilling its responsibilities. Leaders must personally participate in the work and take care of the problems item by item. All departments must closely coordinate with one another, jointly solve issues which should be solved, and do their utmost to leave few or no loose ends. In terms of targets of investigation already on the list, they must vigorously bring the cases to a conclusion. In summarizing party consolidation work, they must deal with the realities in party consolidation, uphold the principle of seeking truth from facts, truthfully assess and affirm achievements, list problems and shortcomings, summarize their experiences in party consolidation, apply their experiences in strengthening party leadership and promoting party building in the new historical period to party building, and continuously propel it forward.

The conference emphasized that because time is pressing and in view of the heavy tasks and great difficulties in the final phase of party consolidation,

leadership must be earnestly strengthened. Party committees of all levels must accurately assess the situation and tasks confronting party consolidation, fully recognize its importance and formidability in its final phase, and overcome the mood of slackness. They must have a sense of urgency, redouble their efforts, and give close attention to and properly perform all tasks from beginning to end. Currently, as the assignments and issues are clear, they must resolve to handle them earnestly. Leaders must personally take part in the work and earnestly fulfill it, completing party consolidation relatively satisfactorily and leaving no adverse effects.

Attending the conference were various deputy prefectural, municipal and commission secretaries in charge of party consolidation work and responsible comrades of party consolidation offices and organization departments. Prefectural, municipal and county party secretaries and responsible comrades of various department, commission, office, bureau and company headquarters party committees (party groups) attending the expanded fourth plenary session of the fourth provincial party committee also heard the speeches at the meeting.

6080/9716

CSO: 4005/383

JIANGSU FORUM ON OPPOSING BOURGEOIS LIBERALIZATION

Nanjing XINHUA RIBAO in Chinese 12 Mar 87 p 1

[Article by Zhang Chenglin [1728 2052 2651], Cheng Jingming [4453 2533 2494], and Lu Aimin [0712 1947 3046]: "Expand the Study of the Struggle Against Bourgeois Liberalization"]

[Excerpts] On 10 March, reporters sat in on a forum sponsored by the propaganda department of the CPC committee of provincial organs. Attending the forum were leading cadres of Jiangsu's transportation and public health departments, the bureau of complete sets of mechanical equipment, and metallurgical department, Nanjing's customs office, and the party school of the provincial CPC committee.

The leading party group of the provincial transportation department made sure that the study of the struggle against bourgeois liberalization was carried out organizationally, systematically, and met requirements. With regard to organization, the department's leading party group formed a central study group headed by its secretary to study the central government's and the provincial CPC committee's documents and get a good grip of their guidelines and then made arrangements for study by the whole department. Cadres at the section level and members of party branches who are the backbone forces of the study were trained through concentrated rotational training class. A total of 205 such comrades participated in the study, which provided a warrant for the success of study at all party branches and sections. Studies at other units were carried out with each party branch as a unit and its secretary as a study group leader. With regard to system, the central study group was supposed to study at least twice a month; those cadres at the section level who missed the rotational training were required to make up their study; it was required that documents be distributed to each and every party member; retired old comrades were organized regularly to participate in study discussions; comrades in grassroots units were required to participate in the study of their own units; organs under the provincial transportation department studied each Wednesday and Friday; and a system to check on attendance was also established. With regard to requirements, focal points of study and requirements were worked out for the study and implementation of every important document issued by the central government.

While organizing studies, the leading party group of the provincial metallurgical department learned that because the study of the struggle against bourgeois liberalization had some depth and difficulty, leading cadres must take the lead in the study, study more in depth and set an example for others if they want to do a good job in organizing and guiding this study. Because of this, they always studied relevant documents of the CPC Central Committee, mastered guidelines, and unified understanding before they set out to vigorously and voluntarily relay and publicize them to conduct ideological and political work among the masses inside and outside the party. Members of the leading party group went to the metallurgical school, the metallurgical research institute, the design institute, and other units where there were more young people to talk with teachers, students, and cadres and attend symposia with youths to listen to their opinions and demands and answer their questions.

The leading party group of the provincial bureau of the complete sets of mechanical equipment scored fairly good results by organizing studies at different levels in accordance with the different conditions of cadres, party members, youths, and retired cadres. Their specific method was to organize cadres above the section level, members of general party branches, and secretaries of party branches to study with the central study group of the leading party group to focus discussion and research on the problems the masses encountered in their study. In this way, cadres can study more in depth, which is helpful to guiding the masses in their study. As for party members who are the key target of education, the leading party group organized them to take part in regular organizational life and receive ideological education focusing on the struggle against bourgeois liberalization in addition to studying central documents. As of today, all party groups have attended two organizational life meetings. Before the Spring Festival, the leading party group called a democratic life meeting to conduct criticism and self-criticism. The general party branch of government organs is also planning to organize party members in the next few days to carry out panel discussions to criticize and denounce Fang Lizhi [2455 0536 0037] and others for their erroneous views in an effort to deepen study. In view of the characteristic that young people have an active and inquisitive minds, the leading party group adopted the method of research, discussion, and enlightenment to organize studies.

Thanks to careful organization and a proper policy, the Nanjing Customs Office achieved marked results in the first phase of study by conducting positive education in the struggle against bourgeois liberalization. Chen Zhenggong [7115 2973 1872], secretary of the leading party group and director of the customs office, made comparison between capitalism and socialism, between the two systems and the two kinds of democracy, using what he personally saw when he was studying in France and Sweden. His comparison was quite convincing and all customs employees, especially young ones, learned a lot from it. Unsatisfied with the results in the first phase of study, the Nanjing Customs Office promptly proposed four tasks for in-depth study: 1) direct people from a general understanding of the four cardinal principles to some serious reading of relevant documents issued by the central government and a series of articles written by Comrade Deng Xiaoping and to the painstaking study of issues; 2) draw a clear line between right and wrong on ideological issues,

heighten awareness, and clarify orientation through positive education in the struggle against bourgeois liberalization; 3) unify efforts to solve issues on political orientation with efforts to solve issues on ideology, concepts, and methods; and 4) integrate the struggle against bourgeois liberalization with the promotion of socialist ideological progress.

12302

CSO: 4005/575

SHANGHAI CRACK DOWN ON ECONOMIC CRIMES

Shanghai WEN HUI BAO in Chinese 24 Mar 87 p 1

[Article by Shen Jianxuan [3947 0494 6513]: "Shanghai Prosecutes a Group of Exceptionally Serious Economic Violation Cases; Taking Advantage of One's Position To Take Bribes and Embezzle Public Funds Cannot Be Tolerated"]

[Text] The Shanghai Municipal Procuratorial Branch recently completed the investigation of a group of exceptionally serious economic violation cases and instituted legal proceedings with the municipal intermediate people's court.

All these cases filed by public prosecutors are about economic crimes committed rampantly by repeated offenders with dirty tricks after the crackdown on serious economic crimes. They have done serious damage to socialist economic order and the reputation of state organs. Zhu Shen [2612 0201 60360], a machinery and electronics warehouse keeper at the Shanghai Normal University, stole 80,000 yuan worth of electronic components from his warehouse and sold them for 9,000 yuan. Liu Zhaoren [0491 0340 0088], former director of the capital construction department of the second municipal trade bureau, colluded with Jin Huichuan [6855 0565 1557] and Du Longbao [2629 7893 0202], cadres at the same department, in receiving over 30,000 yuan in bribes during the operation of contracting part of the Xianxia Hotel construction project out to nonlocal builders, when he was in charge of the preparation for that hotel's construction.

Most defendants of these cases took advantage of their positions to accept bribes and embezzle public funds during economic activities. For instance, in the Zhao Changshi [6392 2490 4258] bribery and graft case, Zhao who was in charge of purchasing equipment and contracting other factories to process equipment for his plant took advantage of his position to accept 50,000 yuan in bribes and embezzled over 30,000 yuan in public funds by not recording sales income. In the Wu Weirong [0702 0251 8833] graft and bribery case, Wu ganged up with others to steal a large amount of steel products and cement that his company used to contract housing projects, made over 70,000 yuan from their sales, and took over 10,000 in bribes.

All of these economic cases involve exceptionally large sums of money. Zhang Jiakui [1728 0163 1145] and Xu Binhao [1776 2430 6275], manager and deputy manager of the Shanghai Branch of the Wuhan Publishing Corp, stole 60,000 sets

of books and sold them for over 100,000 yuan. Yin Zhiliang [0603 5347 5328], clerk at the distribution department of the Shanghai Book Store, pirated a large number of martial art novels, obtained 60,000 sets of so-called "sample books" worth of over 340,000 yuan, and made over 180,000 yuan of illegal income from their sales. At the same time, Yin also offered over 80,000 yuan of bribes to cadres and clerks of departments concerned. Wu Weiming [0702 0251 2494], cadre at a supply and marketing company in Guangdong, took advantage of the opportunity when he was assigned to Shanghai to handle steel product business to get illegal steel products for some township enterprises by signing contracts on behalf of others and by altering the name of receiving units. He accepted over 160,000 yuan in bribes for doing so. Wu also helped Hong Kong businessmen channel over 173,000 yuan of bribes to former party and government leading cadres in Shanghai, Anhui, Shenzhen, and other inland areas, including Yu Tiemin [0151 6993 3046], former deputy director of the office of the Shanghai Municipal CPC Committee.

12302

CSO: 4005/575

SHANGHAI CONVENES UNITED FRONT WORK CONFERENCE

Shanghai JIEFANG RIBAO in Chinese 27 Feb 87 p 1

[Excerpts] The Shanghai Municipal United Front Work Conference was solemnly opened on the afternoon of 26 February at the Shanghai Exhibition Center.

Rui Xingwen, secretary of the Shanghai Municipal CPC Committee, spoke at the conference. He said that under the leadership of the party and through the concerted efforts of all democratic parties and CPPCC committees, Shanghai's united front work has scored definite achievements in the past few years.

Rui Xingwen emphasized that united front work is extremely important, indispensable, in the new period. Multiparty cooperation led by the Communist Party is a characteristic and strong point of the cause to build a socialist political system with Chinese characteristics. We should uphold the principle of long-term coexistence and mutual supervision, show utter devotion to, and share honor and disgrace with, democratic parties. Party organizations at all levels should attach importance to united front work, cooperation with all democratic parties, and CPPCC work so as to make a real success of united front work.

The conference set forth main tasks for Shanghai's united front work for sometime to come. They are: Continuing to uphold and implement the various principles and policies adopted by the CPC Central Committee for united front work since the 3d Plenum of the 11th CPC Central Committee, further expanding the patriotic united front, and offering our service to promote the realization of "one country, two systems" and the unification of the motherland in strict accordance with the general goal of unifying the motherland and revitalizing the Chinese nation; offering our service to further speed socialist material and ideological progress in Shanghai under the prerequisite of upholding the four cardinal principles; and offering our service to perfect and develop socialist democracy and the legal system.

12302

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JIANGXI STRESSES MORE COMPETENT LEADING GROUPS

Nanchang JIANGXI RIBAO in Chinese 22 Dec 86 p 1

[Article: "Jiangxi Stresses More Competent Leading Groups and Better Organizational Work in the New Period"]

[Excerpts] The Jiangxi provincial organizational work forum was held on 15-17 December in Nanchang. Attending the forum were organization department directors of various prefectural and municipal party committees and responsible comrades of organization and personnel branches of provincial units, totaling more than 200 persons. Deputy provincial party secretary Liu Fangren [0491 2455 0088] addressed the forum.

Comrade Liu Fangren explained the importance of the change of leading groups at the county level next year. He said: The county is where the urban and rural, and the macroeconomy and microeconomy converge. Properly handling elections at the county level is extremely significant in developing socialist democracy, strengthening county political power and the CPPCC, and promoting Jiangxi's economy. The terms of the new groups will coincide with the 3 crucial years of Jiangxi's "Seventh 5-Year Plan," the years of intensive economic and political reforms, when we will lay a foundation for economic growth in the nineties. The quality of the new groups will have a direct bearing on the completion of Jiangxi's "Seventh 5-Year Plan" and the greater successes in reform and construction. He called on all prefectural, municipal and county committees to strengthen their leadership over county election work and strictly follow the pertinent legal procedures and regulations. In conjunction with the changing of leading groups, he said they must also make a democratic assessment and annual inspection of county leading groups. When making assignments to the groups, they must uphold the "four requirements" on cadres, emphasize to their revolutionary quality, and strictly ensure their political soundness. They must pay attention to rational composition of personnel, and perform intensive and meticulous ideological-political work.

Comrade Liu Fangren called on the vast numbers of party members throughout the province to learn from the numerous advanced party branches and exemplary members emerging in all areas and on all fronts in Jiangxi and elsewhere in the nation and to fully develop their roles as pioneers and models. He also called on them to further strengthen basic level party organizations, adopt various means to strictly educate party members, further reinforce organizational life, earnestly enforce party discipline, and run the party stringently.

They must uphold the criteria for membership, properly perform recruitment work, and ceaselessly enhance the vitality of party organizations at all levels.

Comrade Liu Fangren stressed in his speech that, to strengthen leading groups at all levels, party organizations must firmly promote the building of the third echelon.

Finally, he urged a continuous and earnest performance of the party's policy on intellectuals throughout the province by unifying thinking and improving understanding.

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NATIONAL CONDITIONS SAID REASON FOR MISSING 'CAPITALIST STAGE'

Harbin HEILONGJIANG RIBAO in Chinese 5 Mar 87 p 2

[Article by Wang Shenyi [3769 1957 5030]: "Why Can Chinese Revolution Skip the Historical Stage of Capitalism?"]

[Text] Communism will eventually win victory throughout the world. Marx and Engels openly stated in the "Manifesto of the Communist Party" that "proletarians' only loss in the revolution was chains and that what they will gain is the whole world." But, due to different political, economic, and historical conditions in different countries, communism is bound to go through different stages when it is first introduced, developed, and even finally realized in these countries. Then, why is it possible for China to go directly to socialism from semifeudal and semicolonial old China? Why did it not go through the capitalist stage? Why is it impossible for China to make up the "missed lesson" of capitalism? Because it is all determined by China's national conditions, and because it is the objective demand of Chinese modern social development, a historical choice made by the Chinese people after over 50 years of relentless, arduous exploration, and the victory and development of scientific socialism in China.

Marxism tells us that the formation of a state stems from the relations of material life. In other words, after a social revolution in a country, the kind of social system to be adopted in this country is not determined by the subjective wishes of its people; instead, it is based on the objective relations of its material life and restricted by objective historical conditions.

In semifeudal and semicolonial old China, the future of China's revolution could only be socialism, not capitalism. This is because, first of all, international capitalism, namely imperialism, did not permit us to establish an independent bourgeois democratic republic. Following the Opium War, imperialists invaded China one after another. The purpose of invasion by imperialist great powers was never to change feudal China into a capitalist country but to change it into their semicolony or colony. They would rather ally with feudal forces, which were the target of bourgeois revolution, to exercise the darkest and most reactionary rule in China than see the birth of a new powerful national bourgeoisie and an independent, bourgeois democratic republic in China. As Comrade Mao Zedong put it: "The history of

imperialists invading China and opposing China's independence and capitalist development is Chinese modern history."

Second, the fact that China was in a historical period in which socialism was winning across the world determined that China could not follow the old track of capitalism in Western Europe. World War I and the victory of the October Socialist Revolution in the Soviet Union changed the situation of world history and made an entire epoch of world history. Since then, China's new democratic revolution became a part of the world's proletarian socialist revolution. China's revolution was to overthrow imperialists, feudalists, and the bureaucratic bourgeoisie; therefore, it was bound to be opposed by imperialists who tried in every possible way to strangle it in the cradle. This is why the future of China's revolution could only be a socialist society.

Third, judged by the situation of various social classes in China, the heavy responsibility of reforming China historically fell on the shoulders of the proletariat. At the time, the bureaucratic comprador bourgeoisie, an appendage of imperialism, was the reactionary force that stunted the growth of productive forces in China and thus became the target of democratic revolution. The national bourgeoisie was not only suppressed and resisted by foreign monopoly capitalists, domestic bureaucratic capitalists, and feudal forces but also tied to them in a thousand and one ways; therefore, the national bourgeoisie, constantly swinging back and forth between revolutionary and reactionary forces, could not become an independent political force, not to mention carry out its political propositions independently. Peasants were the main force of democratic revolution, but due to the restrictions of backward production methods, they could not shoulder the heavy responsibility of leading democratic revolution. Only the industrial proletariat could represent China's new productive force and thus historically became the leader of China's new democratic revolution which could only be carried out through the Communist Party.

Although China's socialist system is not established on the basis of developed capitalism, it does not run counter to the Marxist-Leninist scientific theory of social development. Marxism summarizes the development of human society into five historical stages; they are primitive, slave, feudal, capitalist, and socialist and communist societies. However, this refers to the general pattern of the development of a human society. It does not mean that each and every nation and country must go through every one of these historical development stages in all circumstances. "History often advances through leaps and turns." Marx said in 1881 that his analysis of capitalist emergence and development was "clearly limited to West European countries" and that the rural communes of the Soviet Union "may enjoy all positive results of a capitalist system without having to go through the Kafuding gorge of a capitalist system." When the leaders of the Second International regarded the road of capitalist development in Western Europe as the one and only way to socialism, Lenin criticized them for being utterly ignorant of Marxist dialectics and for not understanding "that the general law of the world's historical development not only does not exclude the discrepancies of individual development stages in regard to the formation and order of development but uses them as prerequisites." And so is the case with the

actual conditions of the development of a human society. After primitive communes disbanded, countries along the Danube River Basin including Spartans, Germans, and Romanians turned from a primitive society directly into a feudal society under the serf system without going through the development stage of slave society. The United States established a capitalist society without going through the historical period of feudal society. The world's first socialist country was not founded by a country with highly developed capitalism. Instead, socialism won the first victory in economically backward Russia which was then under tsarist reactionary rule. Of course, these changes in the order and formation of historical development do not negate the general pattern of social development because changes in the social formation of countries and nations experiencing historical leaps are closely linked to the characteristics of their times. China's new democratic revolution occurred in a great era when imperialism was collapsing and socialism was rising, and this new historical condition made a significant impact on the future of China's revolution. Just as Comrade Mao Zedong said: "The increasing socialist element and the favorable international environment made it possible for China's bourgeois democratic revolution to eventually avoid a capitalist future and realize a socialist future."

The productive forces of semifeudal and semicolonial old China were very backward, but carrying out socialist revolution on such a basis does not violate the scientific theory of historical materialism. Because, whether material conditions are ripe for a social revolution, be it proletarian or bourgeois, is judged not by whether the existing level of productive forces is compatible with the new, completely mature social system to be established after the revolution but mainly by whether it suits the existing social system. Marx said in the foreword of the "Critique of Political Economics": "When the material productive forces of a society develop to a certain stage, they will conflict with existing relations of production or property among which they have been operating. As a result, these relations will change from methods developing productive forces to those restricting them. Then, it will be time for a social revolution. For instance, England successfully carried out a bourgeois revolution in the 1640's although at the time productive forces consisted mainly of labor in the handicraft industry. The steam engine, which was an important factor in the industrial revolution, was not invented until after the mid-18th century; the wide industrial use of steam engines was a matter of the late 18th century, 150 years after the victory of the British bourgeois revolution. The great French bourgeois revolution occurred in 1789, but France did not complete the industrial revolution until the late 1850's and 1860's. Even after the industrial revolution, France was still basically a country in which small production was predominant. When the socialist revolution occurred in China, our productive forces were far from being sufficient for establishing a highly developed socialist system, but all production relations of old China were set obviously against the development of productive forces and no existing economic relations could be used to accelerate the development of productive forces. Therefore, material conditions were ripe for China to carry out its socialist revolution; establishing a socialist system under the circumstances was in total conformity with Marxist and Leninist theory that production relations must conform to the nature of productive forces.

Some people of the Second International opposed the October Revolution for the reason that "Russia's productive forces had not reached the level for realizing socialism." Lenin then responded sharply with a question: "Why can't we first use the means of revolution to gain the prerequisite for reaching this level and then catch up with other countries on the basis of worker-peasant political power and the soviet system?" If we look back on the road taken by China's socialist revolution and construction, we will discover that China has realized exactly this glorious theory of Lenin's. China's socialist system is still not perfect and it has taken many detours in the course of development. But in the past 30 years or so, especially since the 3d Plenum of the 11th CPC Central Committee, we have made great achievements in political, economic, scientific, and cultural fields which are there for everyone to see. As long as we adhere to the four cardinal principles and the principles of reform, invigorating the economy, and opening to the outside we will certainly be able to correctly implement the party's line adopted since the 3d Plenum of the 11th CPC Central Committee and build socialism with Chinese characteristics.

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